The Use of Multiple Methods of Engagement: A Case Study of Foreign & Colonial Investments

ARANIYAR ISUKUL

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Abstract

The central aim of the thesis is to examine the use of multiple methods in institutional investors' engagement in the UK. In pursuit of that aim, the thesis seeks to examine institutional investors' engagement through the agency theory framework. Previous research on institutional investors' engagement has failed to illuminate the ways in which institutional investors' engagement in corporate governance and corporate social responsibility is applying multiple methods to engagement; particularly as a significant amount of institutional investors' engagement is conducted discreetly and the data and information relating to their engagement activities is not usually publicly disclosed. Very few researchers investigating institutional investors' engagement recognise that dialogue alone is, at times, insufficient and may not produce the results that they expect. Hence, extant research has not examined what path institutional investors take when a particular mode of engagement fails to yield the desired result.

This research examines Foreign & Colonial Investments and reveals that, when one method of institutional investors' engagement, employed to influence corporate behaviour, is unsuccessful, F&C Investments makes use of another method of engagement to influence corporate behaviour, policies and practices. Hence, the traditional approach to institutional investors' engagement is changing. For example, in the past, institutional investors' engagement in corporate governance and corporate social responsibility tended to occur separately. Institutional investors' engagement in corporate social responsibility was the focus of ethical and religious investors. However, this research clearly shows that institutional investors integrate corporate governance and corporate social responsibility issues in F&C Investments' engagement practices. The integrating of corporate governance and corporate social responsibility suggests that the practise of institutional investors' engagement may have is advancing. F&C Investments' engagement in corporate governance and corporate social responsibility indicates that corporate social responsibility has become mainstream, having progressed beyond the initial realms of religious and ethical investors to become a major aspect of corporate governance.

Table of Contents **Page**

Abbreviations

AGM Annual General Meetings

BP British Petroleum

CEO Chief Executive Officer

CG Corporate Governance

CSR Corporate Social Responsibility

DRC Democratic Republic of Congo

ESG Environmental Social and Governance

HIV/AIDS Human Immunodeficiency Virus infection/Acquired Immunodeficiency Syndrome

F&C Foreign Investments Colonial Trust

SEE Social Ethical and Environmental

UKSIF United Kingdom Social Investment Forum

List of Tables

List of Figures

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Dedication

To my family, supervision team and friends whose support has enabled me to complete this thesis.

Declaration

I declare that the work contained in this thesis has not been submitted for any other award and that it is all my own work. I also confirm that this work fully acknowledges the opinions, ideas and contributions from the work of others.

Name: Araniyar Isukul

Signature:

Date:

Chapter 1: Introduction

1.1 Outline of Chapter

This chapter begins with an overview of the major characteristics of a key distinctive group of investors/shareholders in capital markets around the world, namely institutional investors. First, an exploration of the term 'institutional investors' is undertaken, in particular describing who they are and what they do. The relevance of, and also important roles played by, institutional investors in capital markets are then described in detail. These aspects form the background to this study as its primary aim is to investigate the nature of these institutional investors' engagement in both [1]Corporate Governance (CG) and [2]Corporate Social Responsibility (CSR) issues. In addition, the study examines the use of multiple methods in engagements with the publicly-listed entities that these investors partly own. Next, the study's primary research questions are elaborated upon. A brief summary of the content of successive chapters is then provided.

1.2 Institutional Investors

The term 'institutional investors' usually refers to a range of financial institutions such as investment companies, mutual funds, insurance companies, pension funds, banks, endowment funds, etc that manage funds on behalf of their clients. This is not a homogeneous group of investors as they vary greatly in size and structure (Clarke, 2007), nevertheless, they are typically seen as large financial institutions with great amounts of capital to invest. In fact, institutional investors form the largest percentage of participants in security trading and their share of stock market volume has consistently

[1]Corporate governance is a system in which companies are directed and controlled. It involves the roles and relationships between a company management, its board, its shareholders and other stakeholders and the goals for which the corporation is governed (Solomon, 2010).

[2] Corporate Social Responsibility is the way business organizations integrate social, environmental and economic concerns into their values, decision making strategy and operations in a transparent and accountable manner thereby establishing better practices within the business organization, as well as creating wealth and improving society (Keinert, 2008).

grown over the years. More specifically, Davis (1996) defines institutional investors as specialised financial institutions which manage savings collectively on behalf of small investors, towards a specific objective in terms of acceptable risk, return-maximisation and maturity of claims.

In the past few decades, institutional investors have gained prominence as a category of investors who are influencing and shaping decisions made to improve corporate governance and corporate social responsibility practices in businesses, especially in publicly-listed companies (Clark and Hebb, 2003). Partly as a consequence of a spate of worldwide corporate scandals, institutional investors have progressed from being largely passive owners (typically owning significant shareholdings of publicly-listed entities) to becoming active players in tackling corporate governance and corporate social responsibility issues (Solomon, 2007). Consistent with this argument, Hsu and Koh (2004) observed a global surge in institutional investor shareholding and activism in the past two decades. This underlying trend has generated much interest amongst academics, regulators and also the business community in the role that institutional investors should and do play in enhancing both corporate governance and corporate social responsibility practices by listed for-profit entities. Even so, most empirical research in the past has focused primarily on exploring (i) the types of governance and CSR issues that are of concern to institutional investors and (ii) the types of engagement strategies that they adopt. However, little is understood in terms of the effectiveness of such strategies and the types of alternative actions that institutional investors would adopt if any such documented strategies were to fail. This study, therefore, focuses on the multiple methods of institutional investors' engagement strategies over time. Put simply, it focuses on whether institutional investors adopt alternative engagement strategies when the initial adopted strategy does not achieve the required response from the publicly-listed companies that they partly own and how this is approached. In addition, the study also documents strategies that seem to work effectively.

The study is carried out in the UK as it has one of the most developed capital markets in the world and also due to the fact that UK-based institutional investors are often touted to be pioneers as well as worldwide leaders in terms of active shareholder engagement. According to Dong and Ozkhan (2008), institutional investors in the UK hold an estimated 80% of issued equity in the UK stock market; pension funds account for 19.7%, insurance companies 24.2% and overseas investors 37.6%. In the United States, the proportion of institutional shareholding is similarly significant; Brancato (2005) states that institutional investors in the US own an estimated 60% of all US equities, and that there is regular communication between institutional investors and firms because of their investment in their portfolio companies.

Although, traditionally, government regulations in the US and UK made it costly for institutional investors to participate in the governance of their corporate holdings (Black, 1992), more recent regulations and guidelines have resulted in marked improvements in empowering institutional investors to play a more active role (Hsu and Koh, 2005). Consequently, in the last few decades, these investors have indeed been increasingly more active in championing governance and corporate social responsibility practices.

As mentioned previously, one of the many reasons for increased involvement by investors has been the recent spate of worldwide corporate scandals. Incidences include Northern Rock in the UK, Parmalat in Europe and that of Enron and WorldCom in the US. These huge scandals have shaken the foundations of public trust and confidence in the corporate world (Coffee, 2005). Consequently, there have been serious concerns about the increasing need to monitor the activities of publicly-listed [3]corporations and their business activities and policies (Solomon, 2007). According to Yaron (2005) the high-profile and persistent scandals have focused attention on corporate practices and policies.

[3]A corporation is a business organization or entity which has a separate legal personality with limited liability for its shareholders who buy and sell their stocks depending on the performance of the board. It is characterized by the issuance of shares or easily transferable stocks and the existence as a going concern (See Mallin, 2006).

Many questions have been asked concerning where the responsibility lies for corporate governance scandals: on the one hand, regulators have accused institutional investors of being passive owners, especially in the UK, and institutional investors have also traded blame and pointed the finger at the regulators, suggesting that the regulators have failed to equip them with the right tools, legislation and regulations to allow them to operate effectively. Yaron (2005) suggests that the hard lessons learned have instigated a number of corporate governance reforms in the UK and US. The UK Corporate Governance code and the Sarbanes-Oxley Act in the US are corporate governance reforms intended to promote good corporate governance practices by encouraging institutional investors to become more involved in such practices. In the UK, initially, corporations and firms were resistant to the increasing involvement of institutional investors in corporate governance. However, attitudes are slowly changing as corporations are beginning to accept the changing role of institutional investors. In a sense, corporations are becoming more proactive in aiding institutional investors by providing adequate information, especially before Annual General Meetings (AGM) (Solomon, 2010).

1.3 Institutional Investors' Engagement

Institutional investors' engagement can be viewed as the voluntary monitoring and intervention of institutional investors to influence business management and organisation decisions, practices and behaviour (Clark and Hebb, 2004). Engagement provides investors with an opportunity to influence corporate behaviour. It involves addressing aspects of corporate governance and corporate social responsibility practices and policies that could have an impact on the financial performance of an organisation and also its long-term wellbeing (Yaron, 2005). For example, it could include the restructuring of the board, in particular key executives who are considered to be ineffective, or it could consist of addressing potential social and environmental risks that may threaten to impact negatively on the corporation. Simply put, 'engagement is the most direct approach institutional investors can use to try to influence corporate behaviour. The approach was developed to fulfil institutional investors' aspiration to change the way corporations interact with and affect society' (Kinder, 2004). The purpose of institutional investors' engagement is to promote good corporate governance and corporate social responsibility practices (Solomon, 2007).

Sjostrom (2008) observes that often institutional investors pursue engagement in environmental and social issues as a matter of principle-based reasoning, for example safeguarding human rights, being a fundamental ethical principle. Institutional investors use different methods to convey their message to senior managers of companies such as writing letters informing the company of their errors, raising issues at the AGM or maintaining a detailed and direct dialogue with the company, and the use of more public strategies including filing shareholder proposals, media campaigns and, in extreme situations, litigation.

The literature review on institutional investors' engagement reveals that research on institutional investors has been expansive, covering areas such as institutional investors' ownership and company performance, institutional ownership and monitoring, institutional investors' activism (Black, 1990; Black, 1997; Gillan and Stark, 2000; Karpoff, 2001; Romano, 2001) and the role of institutional investors in corporate governance (Nelson, 2006; Mallin, 2006; Solomon, 2007). The evidence suggests that the initial interest of institutional investors focused exclusively on matters related to corporate governance (Gillan and Stark, 2000; Romano, 2001). Karpoff et al. (1996) research reveals that corporate governance issues accounted for 65.5% of the issues institutional investors were interested in; governance-related issues such as executive pay, independence of the Board, underperforming companies and aligning performance to pay.

Since the publication of Karpoff et al's (1996) research, work on institutional investors has expanded to include the role of institutional investors in corporate social responsibility practices. Sparkes and Cowton (2004) discovered that institutional investors' engagement has moved beyond the boundaries of corporate governance to embrace corporate social responsibility issues. Such issues include addressing concerns regarding climate change, efficient use of energy, reduction of carbon emissions, addressing discrimination in the work place and sustainable development.

1.4 Relevance of Institutional Investors in Corporate Governance

An important factor which has made institutional investors more relevant is the increasing size of financial institutions. Additionally, an increase in aggregate ownership has resulted in greater concentration of power (Pound and Gordon, 1993 and Carleton et al., 1998). Pound and Gordon, 1993 and Carleton et al. 1998, insinuate that the implication of the size increase is that it prevents institutions from exiting a company that they are not satisfied with, without incurring severe loss in the value of the share price. The only alternative lies in adopting activist positions. Institutional investors are capable of exerting some measure of influence on corporations when dealing with issues of corporate governance and corporate social responsibility. They have more resources, given their voting weight and their size, that they can wield for, or against, companies in which they have investments. As a result of the enormous resources at their disposal and their size, institutional investors are able to employ information at lower costs when compared to individual investors and other, smaller, competing groups.

Institutional investors are capable of influencing corporate governance, corporate behaviour and practices of companies that they have vested interests in, as well as mitigating potential business risks (Breen, 2006; Gillan and Stark, 2007; and Solomon, 2010). Institutional investors have become extremely vigilant in monitoring the activities of businesses in which they invest. They have come to understand that it is not always in their best interest to be passive when dealing with the business activities of these companies, that monitoring, engagement and intervention are tools that they have at their disposal to ensure that certain foreseeable business risks are mitigated. The Stewardship Code recommends that institutional investors in the UK should: publish a policy statement on engagement, monitor and maintain dialogue with companies, intervene where necessary, evaluate the impact of their policies and report back to clients.

Nisar and Martins (2006) suggest that these guiding principles have endowed institutional investors with the responsibility to work with board management teams and other shareholders to effect positive changes in corporate governance, financial structure and, most importantly, the strategies used to mitigate business managers' decreased appetite for risk that will bring about long-term improvement in company performance. Story and Price (2006) emphasise that the need to manage business risk is not done out of need for institutional investors to become more inquisitive in the business practices of the organisations in which they invest, but, as an inability to detect perceived risks could have dire consequences for the organisation, this may severely damage the business performance of the company and, at an extreme, may threaten the business organisation's future viability.

1.5 Motivation for the Research

The researcher's interest in institutional investors' engagement is not entirely new; the writer has written a Masters dissertation on institutional investors' engagement and wanted to carry out a more in-depth examination of investors' engagement practices. Whilst intending to conduct interviews with fund managers, access to them proved impossible and another data source was sought. The researcher found an enormous amount of published data documenting F&C Investments' engagement practices over a number of years. This rich source of data offered the researcher an alternative means of executing the research. The source of data included a diverse range of information contained in engagement reports, together with engagement policy booklets and research journals.

This research is quite different from previous studies of institutional investors' engagement. The researcher found that most of the research work in this area has been largely quantitative in nature (Smith, 1996; Brav et al., 2006; Nelson, 2006; Gillan and Stark 2007) with measures such as market returns in the short and long term, abnormal profits, sales and turnover being some of the parameters used in examining institutional investors' impact on corporate governance. Research on institutional investors' engagement has also tended to focus on performance and outcome, to the detriment of important research interests such as the issues that institutional investors' engagement research addresses. The researcher finds that whilst a quantitative approach allows for examining cause and effect relationship, and to what extent engagement by institutional investors enhances financial performance of firms, it largely fails to provide a detailed account of how institutional investors' engagement practise has progressed (Karpoff, 2001; Nisar and Martins 2006; Becht et al., 2007).

The argument for choosing a quantitative research approach lies in the deductive nature of the research; one of the advantages of this approach is that it builds on existing frameworks and theories that lucidly explain institutional investors' engagement. The use of a structured approach to the research allows for a greater understanding of the ways in which research on institutional investors' engagement is progressing over time and what exactly the advancment is and how it has changed the nature of institutional investors' engagement. This research work proceeds to examine the use of multiple methods in institutional investors' engagement. It is also unique in a sense as, whilst quantitative research on engagement has relied more on the use of questionnaires and interviews, the researcher has made use of a rich volume of documented data from a six-year period (2005-2011).

There are research papers that have examined institutional investors' engagement and some of the research in engagement has focused on the voting practices of institutional investors, the use of dialogue by institutional investors to influence corporate behaviour and practice on corporate governance issues, institutional investors' engagement on environmental, social and ethical issues or corporate social responsibility issues (Sparkes and Cowton, 2004; Solomon, 2007). This research on investors' engagement extends the extant research, which is largely focused on the use of engagement to influence corporate behaviour (Dresner, 2002; McLaren, 2004; Collier, 2004; and Vandekerckhove et al., 2007).

The contribution to knowledge has focused more on how the nature of institutional investors' engagement is evolving. The traditional shareholder activist approach is currently being modified and it appears that traditional shareholder activism tends to focus more on corporate governance issues, to the detriment of corporate social responsibility issues. Institutional investors' engagement in corporate social responsibility appeared to be at the margin instead of mainstream; very few institutional investors seemed to be interested in corporate social responsibility, or even when they did appear to be interested, research on institutional investors' engagement shows that engagement in corporate governance issues tended to be examined differently from engagement in corporate social responsibility issues (Romano, 2001; Nelson, 2006; Gillan and Stark, 2007; Hendry et al., 2007).

Carr (1996) argued at the time that the sole responsibility of business is to create value for its shareholders and government was responsible for its other stakeholders. That thinking has obviously been flawed as research has shown that companies who fail to address potential social and environmental problems created by their business activities tend to be liable to litigation through causing social and/or environmental harm to their host communities. For example, the recent British

Petroleum (BP) oil spill in the Gulf of Mexico demonstrates that BP's failure to effectively manage health and safety risk cost the company more than an estimated $ 20 billion in fines and clean-up expenses (Schwartz, 2012). The methods used by institutional investors to influence corporate behaviour and practices are evolving; there is evidence to suggest that when a particular approach and method of engagement is applied but fails to achieve the institutional investors' objective, they tend to change their approach and use a different method of engagement.

This research provides a theoretical understanding of the complexity of institutional investors' engagement practices, as institutional investors grapple with complex governance and corporate social responsibility issues. It does so by using the agency theory framework to explore institutional investors' engagement and finds that institutional investors are able to reduce agency costs by addressing [4]moral hazard and adverse selection problems. Institutional investors can address the [5]adverse selection problem by reducing the asymmetries of information; they do so by encouraging managers and companies in which they have vested interests to disclose information concerning their corporate governance and corporate social responsibility practices. Institutional investors also reduce the moral hazard problem by using corporate governance instruments to align the interests of investors and managers. Such instruments include performance based incentives for managers (e.g. benchmarking pay to performance), strengthening internal control mechanisms (e.g. appointing independent non-executive directors) and aligning managers' pay to selected corporate social responsibility criteria (e.g. aligning pay to health and safety performance).

[4] Moral hazard is a situation where a party (the agent) will have the tendency to take risks because the costs that could incur will not be borne by the party taking the risks, the cost would be passed on to the principal (See Gomez-mejia and Wiseman 2007 for details).

[5] Adverse selection is an intentional misrepresentation by the agent. The agent may claim to possess certain skills when he or she has been employed. The problem of adverse selection arises because the principal cannot fully access the skills of the agent at the time of employment or even when the agent has been employed (See Jensen and Fama 1983 for details).

1.6 Research Question

Initially, the researcher had set out to investigate institutional investors voting in the UK and had wanted to examine some of the factors that may have been responsible for the poor level of voting by shareholders and the voting practices in the UK. The research had hoped to shed light on a different aspect of institutional investors voting in the UK that has not been given much consideration at the moment. The research will be investigating shareholder voting practices by institutional investors: it intended to focus on issues that shareholders as institutional investors vote against at their annual general meetings. The research had intended to inform corporate governance practice by identifying areas where pension funds are unhappy with business practices of firms they have a majority shareholding in. The premise of the research at the time was that institutional investor vote against issues that they are not satisfied with, as a message or signal to management to inform them to make some changes in the way the business operates and performs. The objectives of the research are as follows:

- Identify corporate governance and corporate social responsibility issues that institutional investors vote against during their annual general meetings.
- Inform corporate governance regulations and business practices by identifying; if any; areas of weaknesses that institutional investors are dissatisfied with as revealed by their voting reports.

The research questions the research had hoped to answer were:

What are the issues that institutional investors vote against during their annual general meetings?

Are they issues that deal more with corporate governance or corporate social responsibility?

However, after my mid-point progression examination and due consultation with my supervision team, I was advised to change the focus of the research, my supervision team were of the opinion that there was not enough substantive material and data on shareholder voting in the UK to write up a doctoral thesis. As a result of that, the focus of the research was modified to focus on some other aspect of institutional investors' engagement.

This piece of research aims to illuminate different aspects of institutional investors' engagement in the UK in particular issues over a period of time, as the use of multiple methods in engagement is an aspect that has not previously been considered in depth. Specifically, this study intends to examine corporate governance and corporate social responsibility practice by identifying issues that institutional investors are concerned with. The research will investigate UK-based institutional investors' actual engagement practices and the types of alternative strategies adopted if, and when, initial initiatives fail. This research is a case study analysis of Foreign & Colonial institutional investors' engagement activities over a six-year period.

The primary research questions posed are:

What are the types of corporate governance and corporate social responsibility issues that institutional investors are concerned with?

How do institutional investors' use multiple methods in engagement, especially in relation to those strategies that do not seem to achieve the desired outcomes?

To address the research questions above, it was necessary for the researcher to use an extensive amount of information from Foreign & Colonial Investments (F&C Investments). F&C Investments can be regarded as one of the leading pioneers of institutional investors' engagement practice in the UK (Skypala, 2010). With over 230 investment professionals, F&C Investments has one of the largest investment teams in Europe and manages approximately £100.8 billion worth of assets for a diverse range of insurance companies, institutional clients and retail investors, representing more than three million investors (Russell, 2008). F&C Investments provides asset management services including a range of investment trust options and venture capital trusts. It primarily operates in the UK and other European countries (Reynard, 2012). The company offers services through two segments which include investment management and property asset management. The company's vision has always been focused on creating value for its customers by delivering superior performance. The aim of F&C Investments' engagement is to be persuasive and pragmatic in order to achieve change that enhances not only the bottom line, but also corporate behaviour, corporate policies and corporate social responsibility practices. F&C Investments uses its leverage as one of Europe's largest investors to support the implementation of good environmental, social and governance practices.

1.7 Outline of Research Chapters

Chapter 2 discusses the theoretical underpinning of institutional investors' engagement from an agency theory perspective and a stakeholder perspective. It discusses the growth and influence of institutional investors in the UK and explores the role of institutional investors in corporate governance and corporate social responsibility. Figure 1 on page 15 gives an illustration on the structure of the literature review on institutional investors' engagement.

Chapter 3 reviews the two approaches to engagement that institutional investors take and explains the different methods that investors can apply to engagement. It discusses institutional investors' engagement as an important mechanism that can be used to ensure that managers are acting in the best interests of the investors. The use of multiple methods in institutional investors' engagement is examined in the context of the application of various methods of engagement to influence corporate behaviour, practices and policies. When a particular method employed by investors does not work, an alternative is applied. For example, institutional investors' use of dialogue is an important tool for influencing corporate behaviour, practices and policies, but at times dialogue alone is ineffective in producing the intended result.

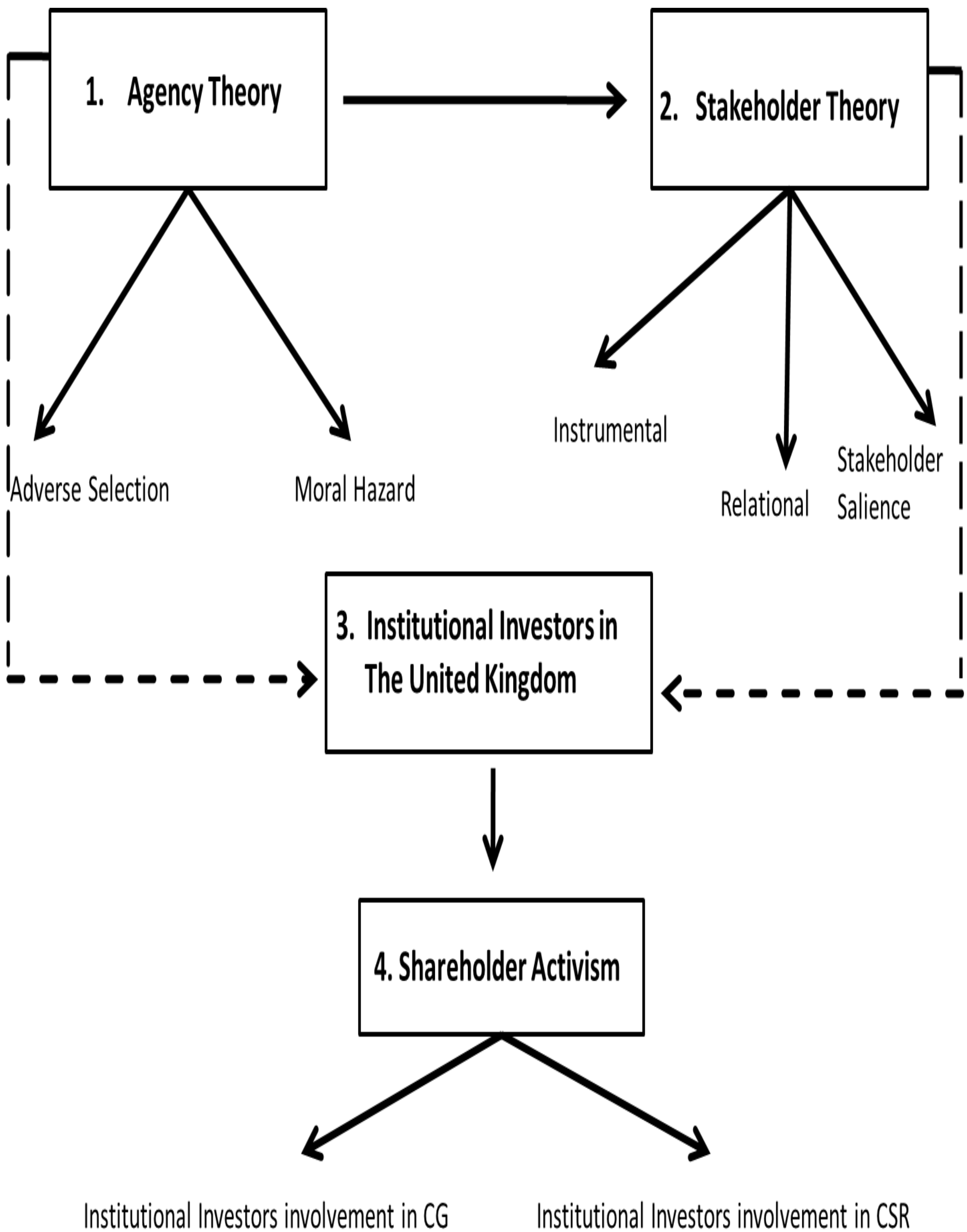
In Chapter 4 the researcher explains his research philosophy, methodology and methods. The researcher discusses his ontological position and justifies the research methodology used in executing the research. The choice of positivist theoretical perspective over the interpretivist theoretical perspective is explained. The use of case study methodology is described and the use of content analysis of the research data is explained in detail.

Chapter 5 provides an overview of F&C Investments. It gives an explanation of the organisation's structure and also explains its engagement philosophy: the aim of F&C Investments' engagement is explored, F&C Invesments' corporate governance guidelines are discussed and its investment philosophy described. F&C Investments' engagement is targeted at enhancing not only the bottom line (e.g. increasing profit and earnings of shareholders), but also influencing corporate behaviour, corporate policies and corporate social responsibility practices.

Chapter 6 analyses and discusses the data on F&C Investments' engagement practices. It begins with a discussion of the corporate governance and corporate social responsibility issues F&C Investments' engagement addresses. A longitudinal analysis of F&C Investments' engagement in corporate governance and corporate social responsibility over a six-year period is examined. The use of multiple methods in institutional investors' engagement is discussed with illustrations of specific cases exemplifying where it has been applied.

Chapter 7 provides a summary of the discussions and research findings on institutional investors' engagement in corporate governance and corporate social responsibility and a conclusion. It also offers recommendations for further research in institutional investors' engagement which could provide invaluable and insightful information on improving governance and corporate social responsibility practices. An explanation of the limitations of the research is also provided.

Figure 1: Structure of the Literature Review



Chapter 2: Literature Review: Role of Institutional Investors in Corporate Governance and Corporate Social Responsibility

2.1 Introduction

Chapter 2 begins by defining the concept of corporate governance from the traditional agency theory perspective. This is followed by a detailed elaboration of the various roles, functions and/or responsibilities of shareholders/owners of publicly-listed companies from agency perspective with particular focus on institutional investors. The primary aim is to highlight the central role played by institutional investors as owners typically holding significant blocks of shares in publicly-listed companies in (i) monitoring managerial actions and (ii) shareholder activism, especially in corporate governance-related and corporate social responsibility (CSR)-related issues.

This chapter also examines many other important aspects relating to institutional investors, drawing mainly upon the extant corporate governance literature stream. These include (i) the benefits of having institutional investors as interested and powerful (by virtue of their significant shareholdings) monitors that can reduce asymmetries of information and agency costs, (ii) alternative theories and perspectives regarding the actual and supposed role of these investors in promoting better corporate governance and CSR practices such as the stakeholder perspective/theory.

In essence, the review explores the debate and academic case for institutional investor involvement in shareholder activism. It illustrates how institutional investors, through active and persistent engagement strategies, can indeed influence corporate behaviour, practices and policies.

2.2 Corporate Governance: A Traditional Conception

With limited liability and an ease of transferability of ownership, the modern corporation is an ideal instrument for assembling vast amounts of worldwide capital from both public shareholders and private investors. As a consequence, such publicly-listed entities have emerged as a powerful and dominant form of business institution within the last century. Indeed collectively, corporations have tremendous influence on economies and also many other aspects of the global social landscape (Berle and Means, 1932; Mallin, 2006).

Corporations tend to grow ever larger with (i) the accumulation of more capital from investors worldwide and (ii) the need to increase efficiency in production through economies of scale; the subsequent specialised division of labour results in a practical separation between ownership and control. Put simply, whilst shareholders collectively own such entities, the control and management of these corporations is delegated to a group of professional managers (Mallin, 2006).

Berle and Means (1932) argued that this separation of ownership and the loss of control by shareholders have created a governance problem. This is due to the fact that such separation allows managers to act in their own self-interest rather than in the interests of shareholders. Indeed, Jensen and Meckling (1976) noted that the interests of managers and investors are not always identical; managers may prefer to pursue business goals that ensure they receive increased remunerations and bonuses rather than focus on increasing the wealth of investors.

According to Gillan and Stark (2003) the relevance of corporate governance arises largely as a result of conflicts between shareholders and managers in the corporate structure created by the separation of ownership and control. These conflicts of interest are often referred to as agency problems. An underlying assumption of the agency problem is that managers are more interested in maximising their own welfare than the welfare of investors (Fama and Jensen, 1983; Schotter and Wiegelt, 1992). In this respect, Boatright (1999) argued that company managers have a tendency to pursue their own personal objectives such as aiming to gain large bonuses and increase their stock holdings. Solomon (2010) observes that this kind of behaviour can result in managers pursuing business projects and company investments that are focused on yielding short-term benefits and profits (when managers' pay is bench-marked against these performance measures), rather than focusing on maximising investors' wealth by investing in business projects that would yield wealth for the investors in the long-term.

The agency problem, as described above, has prompted policymakers and capital market participants worldwide to consider various means of ensuring that corporate managers act in the best interests of shareholders, as the owners of those entities. Here, the concept of corporate governance becomes relevant. Larcker et al. (2005) explain that corporate governance generally refers to a set of mechanisms that influences the decisions made by managers where separation of ownership and control exists. Examples of these monitoring mechanisms are the Board of Directors, institutional investors and the market for corporate control.

Huse (2007) states that corporate governance is seen as the interaction between various internal and external actors and Board members in directing a firm's value creation. Internal actors are those who make decisions and take actions within the firm. External actors are those who seek to influence and control decisions from outside the firm and include non-governmental organisations and the local community.

Tricker (1984) suggests that the role of corporate governance is not concerned with the running of the business of the company per se, but with giving overarching directions to the enterprise; overseeing the management's executive actions and satisfying legitimate expectations of accountability. In fact, Solomon (2010) suggests that corporate governance may be seen as a web of relationships, not only between a company and its owners but also between that company and a broad range of stakeholders: employees, customers, suppliers and bondholders.

Overall, there is a lack of consensus on the definition of the term corporate governance. However, the various definitions of corporate governance suggest that, at the core, the concept encompasses the relationships between shareholders and managers as well as other stakeholders. It is also about the set of mechanisms that is used to influence the decisions of the senior manager and the Board of Directors. As agency perspective is by far the most dominant in the extant literature in explaining, and subsequently analysing, the corporate governance dilemma, the following section explores this perspective in a detailed manner.

2.3 Examination of Institutional Investors from an Agency Theory Perspective

Agency theory, as described in the previous section, attempts to explain the relationship between two or more parties in which one party is assigned the role of the principal and the other the role of the agent: the agent has been designated with the responsibility of performing some specific task on behalf of the principal (Eisenhardt1989; Hendry, 2005; Shapiro, 2005; Saam, 2007). Similarly, Guilding et al. (2005) argued that the agency perspective emphasises exchanges between two parties; one party, the principal (representing the owner of the business), delegates work to a second party, the agent (representing the manager). The theory elucidates the principal-agent relationship and also describes the conflicts that can arise when two parties who have a contractual agreement also have different interests and preferences (Kim and Mahoney, 2005; Gomez-Mejia and Wiseman, 2007). The agency theory relationship exists in a variety of contexts that involve the delegating of authority and responsibility. Some common examples of agency relationships include doctor-patient, employer-employee, landlord-tenant, politician-citizen and investor-manager (Kivisto, 2007).

The basic assumption of the agency perspective in relation to publicly-listed companies is that managers' (agents') and owners' (principals') interests are not aligned (Jensen and Meckling, 1976). Senior management and directors are more interested in maximising their own wealth, power and prestige while safeguarding their reputation, whilst shareholders are more inclined to maximise the value of their shares and asset holdings (Moldoveanu and Martins, 2001). This divergence in the alignment of interests has been the cause of severe tension between agents and principals. Donaldson and Davis (1991) posit that these divergences of interest can sometimes lead to what they call 'agency loss.' Agency loss may occur when the return to the residual claimants (the owners) falls short or below what it would be if the principals (the owners) exercised direct control of the corporation.

The reduction of agency costs by aligning the interests of the principal and agent can be achieved by increasing the principals' incentive to acquire information and by improving the principals' ability to foster a monitoring reputation viaa long-term relationship with management (Gomez-Mejia and Wiseman, 2007). There are certain mechanisms and incentives that can be used to align the interests of managers and investors (Eisenhardt, 1989).

According to Filatotchev et al (2011), aligning executive and owner incentive is regarded as a direct mechanism to address the agency problem. This is done by linking executive remuneration to company performance. The call by owners for intelligent design of compensation structures may not be in executives' best interests. The aligning of remuneration with specific performance criteria is believed to reduce agency costs such as excessive remuneration that is based on performance of high level managers (Forgarty et al., 2009). Agency theory posits that executive compensation can be considered an important lever or an effective method to control agent behaviour.

Executive remuneration is a governance mechanism that is used to align the interests of corporate managers and directors with those of investors. Director and executive pay has become the subject of debate and interest since the mid-1990s and has attracted great attention from investors, shareholders, the media and policy makers (Ferrani et al., 2003; Dong and Ozkan, 2008; Cunat and Guadalupe, 2009). In a bid to ensure that corporate managers and directors focus on enhancing shareholder value, investors have intentionally designed executive pay to meet specific performance-related criteria. Among the many issues in which investors tend to be interested are those that deal with disclosure of executive pay and remuneration, benchmarking executive pay to performance indicators and reducing the pay of underperforming executives. Some of the known performance criteria include shareholder return, profit-based measures, return on capital employed, share price and earnings per share (Monks and Minnow, 2008).

The dramatic rise in executive pay has been largely attributed to equity-based performance pay and the use of share options (Ferrani et al., 2003). According to Mallin (2006), the debate on executive pay has primarily focused on four key areas: (1) the overall level of directors' remuneration and the role of share options; (2) the suitability of performance measures linking directors' remuneration and performance; (3) the role played by the remuneration committee in determining the directors' remuneration; and (4) the influence that institutional investors and shareholders are able to exercise on directors' remuneration.

One important reason for the interest in directors' pay is the perception that directors were receiving considerable remuneration packages, often with little apparent reward to shareholders in terms of company performance, which further fuelled interest in this area. The argument proffered has been that high levels of executive pay are necessary to attract talented executives and to reward good corporate performance (Conyon et al., 2000). While this seems sensible in theory, in practice there are concerns over instances where increases in executive pay may not have led to an increase in performance (Dong and Ozkhan, 2008). Growing evidence has revealed that some of the highest paid executives do not necessarily perform better than those who earn less but it is possible that high earnings, as a means of evaluating performance, may be a necessary, but may also be an insufficient mechanism for internal governance.

The relationship between the robustness and effectiveness of the board of directors and poor company performance is another core issue for institutional investors in the literature. The board of directors is responsible for leading and controlling a company and an effective board is fundamental to a company's success (Solomon, 2010). The board is the link between the managers and the investors and is essential to good corporate governance and investor relations (Mallin, 2006). The board is responsible for determining a company's aims and the strategies, plans and policies to achieve those aims, as well as monitoring the progress of their achievement (both from an overarching company viewpoint and also in terms of the analysis and evaluation of their performance as a board and individual directors). Solomon (2010) states that for a company to be successful it must be well governed; a well-functioning and effective board of directors is the Holy Grail sought by every ambitious firm. A company's board is its heart and as such needs to be healthy, fit and carefully nurtured in order to run the company effectively(Bates, Becher and Lemmon2008). Signs of fatigue, apathy, lack of energy and general poor health within the functioning of the board requires urgent attention. The literature on this area has been largely empirical and has wrestled with the following issues: how effective is the board in performing its monitoring function, does the board contribute to shareholders' wealth, are the board and control mechanisms substitutes, does board composition matter, how does the board interact with management and how effective is the differentiation between the roles of Chairman and Chief Executive?

Academic research findings have remained mixed, with some studies finding that there is a positive relationship between an effective board and corporate performance, and some finding that there is no discernible relationship. Some researchers show that there is a negative relationship between the board and performance. The researcher posits that, while the board may play an important role in promoting good corporate performance, instances also exist where business organisations have failed or corporate scandals have occurred. Problems can arise as a result of board members who are not independent and seem to have more loyalty to other members of the board, ambivalent towards enhancing shareholder value. Thus, whilst the board can serve as an important internal mechanism to enhance corporate governance and performance, it may not always be effective in resolving every corporate challenge and other internal mechanisms are necessary to complement the efforts of the board. The directors, while capable and competent in business matters and issues may not have the resources to monitor the activities of senior managers.

Similarly, Lin et al. (2011) suggest that linking executive compensation to executive performance can ensure that consistent targets between owners and agents are achieved. The literature on agency theory explains that the use of executive remuneration-based compensation as a policy instrument has advantages and disadvantages (Samm, 2007; Lubatikin et al., 2007). The use of this policy instrument ensures that both the agent and the principal have the same objectives. On the other hand, this policy may encourage the agent to adopt risk-averse measures and may, in the long run, ensure that executives focus on short-term performance whilst ignoring the long-term strategic business interests of the company.

Grossman and Hart (1983) hold the opinion that one of the major challenges facing corporate governance is solving the agency problem. To reduce agency costs, the use of strong internal corporate governance mechanisms such as an independent Board of Directors that consists of non-executive directors, nominated by shareholders, is considered an important tool. The non-executive directors have been designated to preserve the interests of the owners, who have the resources to monitor management (Forgarty et al., 2009). Empirical research shows that an independent Board of Directors is an effective instrument in reducing agency costs (Solomon, 2010). Competent, independent Board directors are greatly incentivised to monitor management effectively since their hard-earned reputation, as well as the value of their human capital, depends on the expertise in the area (Fama and Jensen 1983).

A second internal mechanism capable of having a considerable effect on reducing agency cost is the size of the board. Lipton and Lorsch (1992) acknowledge that, as the size of the board increases, there is a tendency for it to become less effective in monitoring management as a result of the 'free-rider' problem amongst directors and the increase in time of the decision-making process. Board size affects how effectively and efficiently board members share and fulfil their responsibilities; the smaller the board, the more likely members will experience a sense of unity, common purpose and ownership and every member can be active and engaged resulting in a more rewarding experience. Smaller boards are flexible in terms of scheduling meetings and agenda-setting.

Unfortunately the use of these mechanisms may not always yield the intended or desired results. Carson (2003) notes that the collapse of Enron, WorldCom and Arthur Andersen revealed that the self-interests of senior managers and executives motivated them to act in a way that was harmful to investors but also to the interests of the public. Many employees lost their jobs and also earnings in relation to pensions as a result of the activities of senior managers and executives.

2.3.1 Institutional Investors' Involvement Improves CG by Reducing Agency Costs

More generally, Ayres and Cramton (1994) argue that moral hazard is a form of agency cost which results from principals' imperfect information. To some extent principals or investors are limited by the amount of information available; investors can use this information to attempt to design an incentive scheme that is targeted at reducing the costs that arise from moral hazards, however, as evidence from the principal and agency literature suggests, the principal or investor is not in the best position to assess the performance or ability of senior managers due to imperfect information or information asymmetries (Huddart and Ke, 2007).

The greater the bias and information advantage the agent or senior manager has, the more difficult it becomes for the principals or investors to design an incentive scheme to reduce moral hazard problems. Institutional investors' involvement could potentially reduce the information advantage managers possess. As discussed above, investors committed to holding large amounts of stock have a greater incentive to obtain information about managers' abilities or lack thereof and actual performance. Investors who are involved in the monitoring process go beyond evaluating the performance of companies using measures such as gross and net profits that can be influenced by economic recessions; investors who are involved can, to a large extent, base their support for management on less obvious indicators of managerial performance such as corporate governance practices. They are more willing to condition their support for senior management on greater indicators of managerial performance and can also acquire knowledge and information which provides them with the tools to evaluate and ascertain with increased confidence whether managers are unskilled, incompetent or underperforming.

Institutional investors' involvement is better suited to mitigating moral hazard problems than other traditional corporate governance mechanisms. For example, potential third-party bidders are less likely to respond to problems of moral hazard and adverse selection; they would not possess the knowledge and information to address such issues. This is also true in situations where you have evidence of strong capital markets; external monitors may not have the necessary tools and incentives to discipline managers who have in some way succumbed to moral hazards and caused the corporation financial loss. In some cases, such as Enron and WorldCom, allowing external market discipline may come too late; after the business has collapsed, and in such situations the shareholders and investors would suffer financially. The involvement of institutional investors provides opportunities for investors to resolve difficult business issues with senior managers before they become insurmountable.

2.3.2 Institutional Investors Can Improve CG by Reducing Asymmetries of Information

According to McLaren (2004), institutional investors' involvement can reduce information asymmetries between senior managers and investors and also provides opportunities for senior managers to disclose difficulties and challenging situations faced by a company. Huddart and Ke (2007) acknowledge that timely disclosure of information is an important element of reducing information asymmetry between managers and investors. It allows institutional investors to collect information from external sources about the firms in which they have substantial holdings; with this information investors are then able to bridge the gap of information asymmetry, as investors armed with this information are better able to engage in dialogue and discreet negotiations about issues and concerns that would otherwise not have been possible.

Agency theory also supports the notion that disclosure of information can result in reducing asymmetries of information between senior managers and investors. This reduction not only benefits investors, especially when the company is publicly-listed, it ensures that market participants and various stakeholders are informed of the firm's internal polices; it enables firms to enhance their exposure to capital markets through improving public perception of the firm; it allows extensive analyst coverage and attracts institutional investors who may otherwise have had no interest (Healy and Palepu, 2001).

Reducing asymmetries of information allows the tangible benefits of improved disclosure, public perception and standards. Keeping institutional investors informed can also contribute to a firm's ability to raise market capital as and when necessary. Institutional investors' monitoring not only improves disclosure, it also provides senior managers and investors the opportunity to improve the relationship between both parties and, in so doing, enhances trust. Institutional investors with a long-term perspective do not believe in exiting companies due to conflicts of interest, rather these investors use their holdings and resources to influence behavioural changes which can be very beneficial in the long run, as institutional investors can evaluate the decisions of senior managers of the companies in which they have investments over a period of time.

This can result in a reduction of asymmetries of information in how competent the senior managers claim to be and how competent they actually are. As senior managers make decisions over a progressively longer period of time, investors can easily collate information on performance and ability. As a result, if necessary, they can revise senior managers' contracts, earnings and remunerations to ensure that they become more performance-oriented. To implement the type of contracts that reward good performance and penalise for poor performance and risky behaviour, it is important to have long-term investors, as investors who are not committed to holding shares for a long period of time would not be in a position to take advantage of this process. Thus, investors who monitor have the incentive to discipline certain types of managerial failures (particularly moral hazard issues) in situations where third-party bidders would not take corrective action (Ayres and Cramton, 1994).

Agency theory is not without flaws. Traditional agency theory tends to focus largely on performance-related issues such as profit and gross earnings and makes the erroneous assumption that institutional investors' interests are purely monetary; this has been reinforced over recent decades in the mathematical modelling formulas of financial economics (Jensen and Meckling 1976; Seth and Thomas, 1994). As it stands, agency theory seems to fall short in a sense, as it fails to examine other issues such as environmental and social issues that can affect a firm's profitability, earnings and performance.

In reality, the social and environmental costs of business to society have been greatly ignored; in the past this has allowed corporations to act irresponsibly, detaching themselves from social and environmental costs (Clarke, 2007). However, with the continuing harm that business activities cause to the environment and local community, the issue of environmental sustainability is becoming an increasingly important and topical issue (Keinert, 2008). In addition, there are growing fears surrounding the consequences of non-financial risk as global environmental disasters, terrorism and the threat of nuclear war have focused attention on environmental and social issues (Keinert, 2008).

It is increasingly evident that it is no longer possible for the environment to sustain the detrimental effects of certain business activities; questions are asked and concern is expressed, as many environmental issues such as climate change, global warming and increased flooding are plaguing the planet (Andriof and McIntosh, 2001). The call for more responsible business operations, in light of these occurrences, has ensured it is considered not only necessary, but vitally important to the environment and community as a whole, and also to the viability of businesses in the long run.

Agency theory presents a clear picture of the importance of the economic element to the existence and survival of business, but fails to expose that economic activities have an impact on society, the environment and the local community. Conversely, stakeholder theory tends to incorporate the fact that business decisions have economic, environmental and social costs and that business, to some extent, has a responsibility to the wider community. In addition, stakeholder theory encourages moral and ethical principles when corporations are making business decisions that also affect society.

2.4 Stakeholder Theory on Corporate Governance

The stakeholder theory is one of organisational management and business ethics that addresses moral values in managing a business organisation (Donaldson and Preston, 1995; Jonker and Foster 2002). It takes into consideration a wide variety of stakeholders in making organisational decisions. Some authors are keen to highlight that stakeholder theory was developed to fill the vacuums and unexplored questions of agency theory. Agency theory tends to limit itself to two simple key actors; the principal and the agent. Stakeholder theory goes further, implying that there are more participants involved in a corporation than principals and agents. As Boatright (2002) rightly suggests, stakeholder theory has been developed in opposition to the prevailing system of corporate governance in which shareholders or stockholders are thought to occupy privileged positions; that shareholders ought to have control; that managers have a fiduciary duty to serve shareholders' interests alone, and that the objective of the firm ought to be the maximisation of shareholders' wealth.

Stakeholder theory challenges the notion that the primary purpose of a company is the maximisation of shareholder wealth (e.g. dividends) and argues that the goal of any firm should be to satisfy all of its primary stakeholders (Wall and Rees, 2001); that in addition to its moral obligation to employees, a firm has further responsibility due to the unique and specifically defined relationship between the organisation and its stakeholders. Hasnas (1998) adds that management's fundamental obligation is not to maximise the firm's financial success, but to ensure its survival by balancing the conflicting claims of multiple stakeholders. It has also become clear that in corporate governance failures which result in bankruptcy, it is not only the shareholders who suffer but also a wide variety of stakeholders.

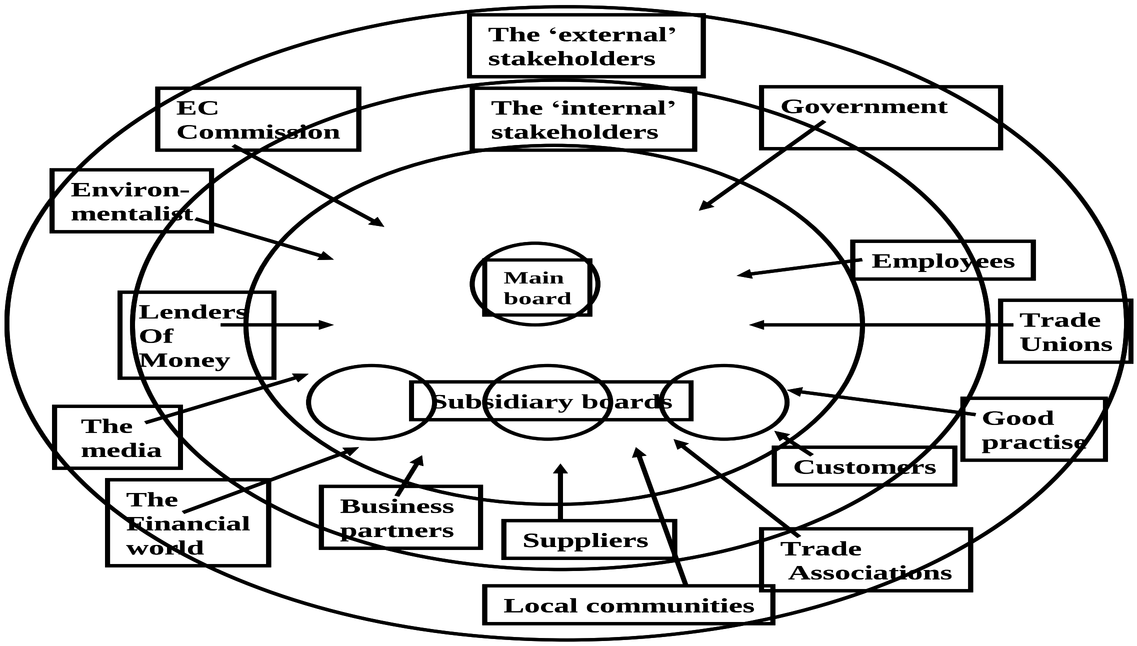
There are many and various ways of defining stakeholder theory and 'stakeholder' depending on the user's disciplinary perspective. Solomon (2010) argues that one common feature of the various definitions of 'stakeholder' is the acknowledgement of an exchange relationship: the stakeholders are not only affected by the company but the company has a considerable effect on stakeholders as they hold a 'stake' rather than a 'share' in the company. In defining 'stakeholder theory', Clarkson (1994) states: the firm is a system of the host society that provides the necessary legal and market infrastructure for the firm's activities.

The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services. Blair (1995), as quoted by Turnbull (1997), offers that the key to achieving wealth creation is the need to align the goals of directors and managers to maximise total wealth and that this can be achieved through providing ownership-incentives to, and enhancing the voice of, those participants in the firm who contribute or control critical, specialised inputs (company-specific human capital) and to align the interests of these critical stakeholders with the interests of external passive shareholders.

A core principle of stakeholder theory is its emphasis on understanding the needs and interests of various stakeholders (Schwarzkopf, 2006). Schwarzkopf presumes that, in order to uphold this principle, conscientious managers must understand the needs and interests of other stakeholders. One meaningful way to achieve this is to enter into a dialogue, but for the dialogue to be significant each party must learn to appreciate the other's perspective or point of view as well as the risks posed by potential managerial action.

In recent times, business and society scholars have moved away from the traditional neoclassical and behavioural theories to embrace the stakeholder theory as they contend that it provides a more realistic world view and provides a sound theoretical understanding of the intricate web of interrelationships between business organisations, societal institutions and the socio-political environment (Wartick and Wood, 1998; Hasnas, 1998). Every business has complex involvements with people, groups and other organisations in society, some of which are intended and desired; while others are unintended and undesired. All parties with which a business is involved have an interest in the decisions, actions and practices of that organisation. The firm or organisation can thus be viewed as a set of interdependent relationships among primary stakeholders (Chakravarthy, 1986; Donaldson and Preston, 1995; Evan and Freeman, 1988; cited in Hillman and Keim, 2001).

Figure 2: External and Internal Stakeholders of a Company



Source: Kendal and Sheridan (1992: p55)

In Figure 1, stakeholders have been further categorised into internal and external stakeholders (Kendal and Sheridan, 1992). The internal stakeholders constitute employees, customers and any other party engaged in direct business with the firm, while the external stakeholders include, amongst many others, the media, financial word and local communities which supply land and other infrastructures to the company. The key emphasis or theme of stakeholder theory is the call to strike a balance between the various stakeholders and their numerous interests (Mitchell et al., 1997).

Reynolds, Schulz and Hekman (2006: 286) recognise that balancing stakeholders' interests is a process of assessing and addressing the competing claims of those who have a stake in the operations of the organisation. The fundamental driving force behind most stakeholder strategies is the desire to balance stakeholders' interests (Freeman, 1984). Whilst extremely informative, the literature on balancing stakeholder interests has focused exclusively on the organisation and has failed, or is yet to consult individual decision-makers (Reynolds et al., 2006). However, the key question is: how can balance be achieved, since there are various stakeholders, with varying needs, and also what methods or approaches can be used to harness this balance? There are basically two approaches to stakeholder management: the instrumental approach and the normative approach.

The instrumental approach to stakeholder management posits that to maximise shareholder value over an indefinite period of time, managers ought to consider key stakeholder relationships. An elemental assumption of this model is that stakeholders are part of the environment that must be managed in order to assure revenue, profits and ultimately provide return to shareholders.

The normative approach to stakeholder management postulates that managers ought to pay attention to key stakeholder relationships but also emphasises the need for proper management of relationships between stakeholders. Its focus differs from the former model by considering a normative moral commitment, rather than using stakeholders solely as a tool to maximise profits or create shareholder wealth (Berman et al., 1999).

Reynolds et al. (2006) conclude that, on exploring the implications of using the two different approaches to balancing stakeholder interest, the instrumental approach is more valuable for organisations and individual managers than the normative approach. It is useful to note that whilst the instrumental and normative approaches to stakeholder management are very instructive of the roles managers need to play in managing the stakeholder relationship, they fail to give an account of the role that shareholders or investors can play in influencing managers and as such will not be relevant in explaining institutional investors' involvement in corporate governance. These two characterisations tend to portray shareholders and investors as weak, diffused and disinterested and managers as acting with uncurbed discretion – both insignificant in the light of institutional investors' influence, concentration and involvement in corporate governance as well as the constraints of managers (Ryan, 2003). In stakeholder theory, shareholders and investors lose their central position in the operation of the firm, they are just one of many stakeholders whose interests management must consider and balance (Dasuki, 2005).

The portrayal of shareholders and investors as weak and lacking in influence from the perspective of instrumental and normative approaches to stakeholder management is perhaps misleading as, in reality, shareholders and investors wield enormous influence and power as a result of their number and amount of shares held. Investors' renewed interest in corporate governance can be traced to a series of events that have shaped the thinking of institutional investors. Initially, investors were content with holding shares and playing a passive role in corporate governance. However, the occurrence of the following incidents: the deregulation of the financial and capital markets, managers' indiscretion and corrupt practices leading to the collapse of multinational companies such as Maxwell Communication Corporation, Bank of Credit and Commerce International, Polly Peck, Enron, WorldCom and Arthur Andersen and the recent global financial crisis that was triggered by the sub-prime mortgages scandal in the US has encouraged institutional investors' increased involvement in corporate governance.

Mitchell et al. (1997), observing the proposed weakness of shareholders and investors in the conventional stakeholder theory, proffered a theory of 'stakeholder salience' to resolve this problem. In order to identify stakeholder relevance, Mitchell et al. (1997) proposed the stakeholder salience theory. This theoretical framework aims to identify stakeholders' reliability, indicating their salience, which is understood as "the degree to which managers give priority to competing stakeholder claims" (Mitchell et al., 1997: 854). Within the stakeholder salience theory, power, legitimacy, and urgency are independent attributes of stakeholders used to define the company's relationship to these groups.

Power refers to the capacity of a stakeholder to influence a firm's survival based on the ownership of, and/or access to, relevant resources. Depending on the amount of resources owned or controlled and the relevance of these resources it is possible for stakeholders to exert lesser or greater influence on the firm. Legitimacy refers to "socially accepted and expected structures or behaviours" (Mitchell et al., 1997: 866). Individuals that have legitimate standing in society or a genuine claim in the company are defined as legitimate stakeholders. Urgency is understood as the degree to which management can delay attending to stakeholders' claims before being perceived as unacceptable (due to time sensitivity). Further, urgency refers to the importance of a claim or the relationship to the stakeholder (criticality) (Mitchell et al., 1997). It is obvious that the importance of a stakeholder increases with the degree to which a stakeholder claim calls for immediate attention.

In a nutshell, stakeholder theory recognises that there are various categories of stakeholders: the primary and secondary stakeholder. It illustrates that whilst a corporation must be profitable, the business of corporations also affects a wide range of stakeholders who must be considered in the decision-making process. While there are numerous stakeholders as a whole, this research is specifically concerned with financial stakeholders, namely institutional investors. At first glance, it appears that stakeholder theory and agency theory are contradictory, that they have seemingly opposing philosophical and theoretical paradigms, but closer inspection may prove that they have similarities in terms of objectives and outcomes.

Both agency theory and stakeholder theory aim to create value; in the case of agency theory, for the shareholders and in the case of stakeholder theory, for the stakeholders. Agency theory tends to focus on corporate governance issues that are likely to affect the creation of value for shareholders and stakeholder theory in a sense extends that boundary, encompassing a broader spectrum of issues that are environmental and social, which can also have a significant influence on shareholder value as well as stakeholder value.

Solomon (2010: p20) is of the view that, in the long-term, "there is little inconsistency between the ultimate goal of agency theory and the practice of a stakeholder approach. It is only by taking into account stakeholders' as well as shareholders' interests that companies can achieve long-term profit maximisation and ultimately, shareholder wealth maximization."

In summary, the theoretical and philosophical stances of agency and stakeholder theory appear to be at variance. Shankman (1990) maintains that the conflicts between agency and stakeholder theory have been extensively debated in the business and management literature. Agency theory posits that managers are opportunistic and self-serving and, given the opportunity, managers are more likely to practice self-serving behaviour than that which is in the interests of their shareholders (Jecken and Meckling, 1976). On the contrary, stakeholder theory has a more optimistic view; managers believe their responsibility is to address the legitimate needs of a variety of stakeholders(Boatright, 2002).

Although both theories appear to be contradictory and inconsistent they seem to share a similar objective regarding creating value for shareholders and stakeholders. Of equal importance is the fact that in practice, in the case of F&C, institutional investors do not choose one theoretical position over the other. Both theoretical positions are integrated into their engagement practices, considering not only the corporate governance issues but also the corporate social responsibility issues. It is important that these insights can be integrated into institutional investors' engagement in corporate governance and corporate social responsibility and thus become potent tools in explaining institutional investors' engagement in corporate governance and corporate social responsibility; it is not simply a choice between agency and stakeholder theory, nor is it a choice between corporate governance and corporate social responsibility, institutional investors are learning that corporate social responsibility issues are equally as important as corporate governance issues.

This research investigates the use of multiple methods in institutional investors' engagement in the UK, therefore it is important to examine research on institutional investors from the UK. The next section presents a compelling explanation as to why UK institutional investors are increasingly persuaded to take a more active stance on corporate governance and corporate social responsibility. This research presents a forceful argument for institutional investors' ability to influence corporate behaviour, practices and policies and in so doing adding value to the company.

2.5 Institutional Investors in the United Kingdom

In the past two decades there have been a series of corporate governance failures that have resulted in the collapse of firms in America, Europe and Asia (Chakrabarti et al., 2011). Corporate governance failures have endangered and damaged the financial welfare of millions of employees, customers, shareholders, vendors and other stakeholders (Mardjono, 2005). This increasing number of corporate governance failures has shaken the foundations of public trust and confidence in the corporate world (Coffee, 2005). Deetz (2007) suggests that corporate governance failures and scandals have occurred due to a number of circumstances: irregularities in financial reporting, a lack of investor confidence and public trust in the financial markets, the worldwide wave of privatisation in the last two decades and deregulation of the capital markets, and the East Asian Crisis. The East Asian Crisis placed the spotlight on corporate governance in emerging markets, as has the recent banking crisis that triggered global recession. Corporate governance failures have stimulated debates about corporate governance that have led to regulatory action and reforms.

In the UK for example, the collapse of corporations such as the Maxwell publishing group at the end of 1980 instigated the development of the Cadbury Code of 1992, Marconi, Poly Peck and BCCI, and the dot-com bubbles and financial scandals have stimulated a series of further enquiries and recommendations. More recently, the banking crisis that led to the collapse of Northern Rock in the UK initiated the Turner Review 2009, an inquiry that examined the causes of global financial crises in order to make recommendations for changes to regulation and the supervisory approaches required to create a more robust banking system for the future (Solomon, 2010).

Also instigated was the development of the Walker Review 2009 that focused on executive remunerations and the role of the board in the banking industry; focussing on corporate governance issues such as risk management and internal control. Regarding corporate governance failures, some of the corporations collapsed as a result of business fraud or an intentional cover-up by some of the senior executives. In the UK, the cases of Northern Rock and Bradford & Bingley are recent examples of corporate governance failure that clearly resulted from bad business plans and poor managerial decisions. In some instances, government policy or informal pressures and regulatory forbearance have also been contributory factors.

According to Kirkpatrick (2009), the financial crisis of 2009 can be attributed to failure and weaknesses in corporate governance practices, and under rigorous examination, corporate governance routines were not fit for purpose to safeguard against excessive risk-taking in a number of financial services firms. Risk management systems failed in many cases due to corporate governance procedures rather than an inadequacy of computer models alone: in a number of cases information about exposure did not reach the board or even senior levels of management, whilst risk management was often activity-based rather than enterprise-based.

However, in many of the cases cited above, legitimate questions have arisen regarding the quality of the board and whether it was in a position to exercise independent judgement. In addition, it is questionable whether the board demanded additional information from management and it is possible that management may actually have been collusive. Consequently, there have been serious concerns about the increasing need to monitor the activities of such corporations, their business activities and policies (Solomon, 2007).

Yaron (2005) suggests that high profile and persistent governance failures have focused attention on corporate practices and policies. Yaron (2005) suggests that the difficult lessons learned have instigated a number of corporate governance reforms in the UK. The Cadbury Report, the Turnbull Report, the Combined Code, the Turner Review and the Walker Review are corporate governance reforms intended to promote good corporate governance practices by encouraging institutional investors to become more involved. The UK reforms in corporate governance have covered several issues that have been addressed in the Combined Code.

The core areas of corporate governance reforms in the UK that were addressed, as stated by Solomon et al. (2000), are executive remuneration, restructure of board composition, internal and external audit, investor relationships, widening board representation and a voluntary or regulated framework for corporate governance. The Cadbury Report (1992), The Myners Report (1995) and the Hampel Report (1999) all stress the importance of institutional investors becoming more involved in the companies in which they invest, suggesting that institutional investors hold regular meetings with the executive team and an increase in dialogue between institutional investors and companies. The Cadbury, Myners and Hampel reports canvassed for a paradigm shift where institutional investors' roles as passive players within investee companies would no longer be suitable or valid.

In the UK, institutional investors have continued to increase in size in terms of percentage ownership of equity. This increase has become more prominent in UK markets. UK markets exemplify how share ownership has moved away from individual ownership and become concentrated in the hands of a few powerful institutional investors (Mallin, 2006). Institutional ownership in the UK tends to mirror that of the US. However, ownership of equity by UK investors is slightly higher than the US in percentage terms. It is estimated that institutional investors own between 65%-75% of shares of quoted companies in the UK (Mallin, 1996).

At the end of 1992, insurance and pension funds accounted for 51.8% of share ownership of the UK stock market. Unit and investment trusts held 8.5% and banks held 0.2%. Individual shareholders held only 20% of UK listed company shares, while overseas investors accounted for 12.8% (Aguilera et al., 2006). The dominance of pension funds and insurance companies in the UK has not always been so. Table 1 shows that individual investors held the bulk of shares in the UK market in the 1960s and early 1970s. Gradually that figure continued to decline. In 2002, individual ownership accounted for 14.3% of the shares held in UK markets. Pension funds, insurance companies, unit trusts, banks and other financial institutions in the early 1990s held an estimated 60% of UK market shares, but that figure declined by an estimated 10% a decade later. The sharp fall in percentage equity reflects the fall in the stock market due to the crash in dot.com shares in 2000 and also the relatively poor performance of the equity markets in the aftermath (Short and Keasy, 2005).

Prior to the publication of the Cadbury Report, there was much anecdotal evidence to imply that institutional investors did not adopt an active role in influencing corporate governance practices in the UK, preferring to sell their holdings in 'problem' companies rather than intervening in the management of the company (Stapledon, 1995; Mallin, 1996). The work of Goergen et al. (2008) confirms this: although institutional investors are the largest owners of UK listed firms, they have been blamed for being too passive by the Cadbury (1992), Hampel (1998) and Newbold (2001) corporate governance committees.

Table 1: Pattern of Share Ownership in the UK

Beneficial Owners	1963	1969	1975	1981	1990	1993	2001	2002
Pension funds	6.4	9.0	16.8	26.7	31.7	31.7	16.1	15.6
Insurance companies	10.0	12.2	15.9	20.5	20.4	20.4	20.0	19.9
Unit trust	1.3	2.9	4.1	3.6	6.1	6.6	1.8	1.6
Investment trusts					1.6	2.5	2.2	1.8
Other financial institutions	11.3	10.1	10.5	6.8	0.7	0.6	9.9	10.5
Banks	1.3	1.7	0.7	0.3	0.7	0.6	1.3	2.1
Total financial institutions	30.3	35.9	48.0	57.9	61.2	62.0	51.3	51.5
Private non-financial institutions	5.1	5.4	3.0	5.1	2.8	1.5	1.0	0.8
Individuals	54.0	47.4	37.5	28.2	20.3	17.7	14.8	14.3
Rest of the world	7.0	5.6	5.6	3.6	11.8	16.3	31.9	32.1
Charities, churches etc	2.1	2.1	2.3	2.2	1.9	1.3	1.0	1.1
Public sector	1.5	2.6	3.6	3.0	2.0	0.8	____	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Short and Keasy (2005: p.64)

According to Black and Coffee (1994) there are several explanations as to why, in the past, UK institutional investors were unlikely to intervene. Firstly, public intervention would draw public attention to the problems faced by the company. The financial market is likely to perceive this as bad news which may consequently result in a fall in stock price. A fall in the value of the stock price also reduces the value of institutional investors' investments and shareholder value. Secondly, when institutional investors become involved with companies in difficulty they become privy to inside information and, as a result, will be unable to trade their shares, exacerbating their loss. Finally, effective institutional investors' engagement is expensive, requiring enormous amounts of resource in terms of time and money, particularly for institutional investors that have diverse portfolios.

In a bid to encourage institutional investors in the UK, the Myners Review (2001) states that there is a lost value to institutional investors through the reluctance of fund managers to actively engage with companies in which they have holdings, even where they have strong reservations about strategy, personnel or other potential causes of corporate underperformance. Mallin (2006) mentions that four committees have examined different aspects of corporate governance in the UK: Cadbury, Higgs, Hampel Greenbury and the UK Stewardship codes. In terms of specific recommendations, the UK Stewardship codes (2012) suggested that institutional investors:

- Should publicly disclose their policy on how they will discharge their stewardship responsibilities.
- Should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
- Should monitor their investee companies.
- Should establish clear guidelines on when and how they will escalate their stewardship activities.
- Should be willing to act collectively with other investors where appropriate.
- Should have a clear policy on voting and disclosure of voting activity.
- Should report periodically on their stewardship and voting activities.

Given the size of their shareholdings, the power of institutional investors in the UK is beyond doubt. Institutional investors, as previously argued, have the potential to exert a significant level of influence on companies and this has clear implications for corporate governance practices, especially with regards to setting the standards for corporate governance and issues of enforcement (Clarke, 2007; Burmajster, 2009).

According to Solomon (2010), institutional investors, as shareholders, have moved away from being the cause of, but are now a means of solving, the agency problem. Institutional investors are not in a prime position to monitor management and help align the interests of management and shareholders. Indeed, institutional investors today are much more involved in all areas of corporate decision-making and have been encouraged to take on a more active role by the recommendations in corporate governance codes of practice and policy documents. Through concentrated ownership of shares, together with the financial strength and expertise of the institution, institutional investors are able to effectively overcome the problem of diffused shareholding.

Mallin (2004) suggests that the power of institutional investors should not be underestimated and that the influence they wield is enormous. Their views may be influenced by various institutional investors' representative groups in the UK. Large institutional investors, mainly insurance companies and pension funds, are usually members of one of the two representative bodies which act as professional groups on their behalf. These two bodies are the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). Both the ABI and the NAPF have best practice corporate governance guidelines which encompass the recommendations of the Combined Code. They monitor the corporate governance activities of companies and provide advice to members. Institutional investors will generally consult ABI and/or NAPF reports on whether particular companies are complying with good corporate governance practice, as well as undertaking their own research and analysis.

This research has been placed within a shareholder activism context; it intends to focus more on shareholder activism and the various strategies and methods that have been employed by institutional investors and shareholders to influence corporate governance behaviour, policies and practices. The next section gives a brief overview of shareholder activism and the various methods used by shareholder activists to influence corporate behaviour, policies and practices.

2.6 Shareholder Activism

Shareholder activists are often viewed as investors who, dissatisfied with some aspect of a company's management or operations, try to bring about change within the company without a change in control (Gillan and Stark, 2007). In his seminal work, Hirschman (1970) classified the exercise of shareholder activism within an exit and voice framework, arguing that shareholders can express their dissatisfaction by selling their shareholdings; the exit option, or they can express their dissatisfaction to management; the voice option. Until the mid-1980s, shareholder activism was practiced by a handful of individuals and religious organisations (Romano, 2000; Gillan and Stark, 2007). However this trend began to change when financial institutions such as pension funds, banks and insurance companies began to purchase significant amounts of shares.

The embracing of shareholder activism by large institutions has been widely publicised and in some circles explained as a logical response to the historical development in the corporate market (Karpoff et al., 1996). Carleton et al. (1998) suggest that one factor that has increased shareholder activism is the increase in size of financial institutions and pension funds over the years. In addition, the increase in aggregate ownership has resulted in an increase in the concentration of power. They insinuate that the increase in size could imply that these institutions cannot exit from a company they are dissatisfied with without incurring severe loss in the value of the share price, and the only alternative lies in adopting activist positions.

Instead of acting in a passive manner and merely as a 'rubber stamp' for managerial actions and decisions, institutional investors are becoming increasingly involved. Their aim is to wield influence on managerial decisions and endeavour to modify managerial policies that they believe are harmful to shareholder wealth. Institutional or shareholder activism is a range of actions taken by institutional investors or shareholders to influence the corporate management board of the companies in which they own substantial amounts of shares. Gillian and Stark (1998) suggest that shareholders wishing to influence management may do so by:

i) Buying and selling shares.

ii) Raising their concerns with management in writing and meeting and negotiating with the management board.

iii) Shareholder resolutions and voting.

iv) The use of public campaigns and media pressure.

v) Takeover mechanisms.

vi) Threat of divestment.

vii) Calling a General Meeting.

A detailed examination of the various methods that shareholders use to influence management will be discussed in the next chapter. There is a wealth of literature on shareholder activism; within this literature there is an examination of the three core issues: which companies are targeted by shareholder activists? What is the motive of the investors that engage in shareholder activism? What economic benefit and shareholder value does shareholder activism add to the selected company? The first question has been explored by Pound and Gordon (1993) and Romano (2000): they both conclude that shareholder activists are more likely to select firms which are performing poorly; performance in this regard is examined more from a financial perspective, with financial indicators such as sales, profitability and turnover as the key indicators and parameters for assessing performance. Shareholder activists are moving away from merely requesting improvements in performance and turning towards ethical issues such as environmental concerns, employee welfare and community related practices (Rehbein et al., 2004).

The second question addresses the issue of motivation for shareholder activism: is the motivation for engaging in shareholder activism purely to enhance shareholder value and wealth, or are there some unexamined underlying motives? Two alternative explanations are given: Gillian and Stark (2007:p.58) inform us that the primary motivation for shareholder activism is to address the agency conflict; they say “shareholder activism is, at bottom, a response to the potential gains from addressing the agency conflict at the core of largely traded companies with absentee owners.” Hendry et al. (2007) agree that to a large extent shareholder activism is motivated by maximising shareholder value, but they also argue that there are some political and moral undertones. For example, in the UK, the Blair government encouraged investors to not only act responsibly, but also to ensure that they held accountable companies in which they invested, not only on financial performance, but also on corporate governance, social, ethical and environmental responsibilities.

The third question has inspired much research and debate in academic circles with three emerging schools of thought: that to a great extent shareholder activism indeed adds value to the target company and also increases shareholder wealth (Gillian and Stark, 2002 and Becht et al., 2007); that shareholder activists are unlikely to cause any significant organisational or policy changes and are therefore unlikely to have any positive effects on a firm’s performance and value (Karpoff, 2001 and Nelson, 2006); and lastly, that shareholder activism has a harmful effect on company management, degenerates performance and in the long run decreases the value of the company (Bainbridge, 2005).

2.7 Institutional Investors' Involvement in Corporate Governance

In his seminal work on the relevance of institutional investors' involvement in corporate governance, Black (1992) argued that institutional investors' involvement can reduce a firm's cost of capital. Better supervision and monitoring by institutional investors can reduce risk and thus the risk-adjusted cost of capital. Institutional investors can reduce the cost of capital through better supervision and monitoring; better supervision may reduce risks and also the risk-adjusted cost of equity. German and Japanese firms have a lower cost of capital precisely because of this reason. In Japan, institutional investors who provide equity also provide debt capital and this provision resolves the investor-creditor conflict and also enhances the lender's willingness to lend in times of crisis. Institutional investors can also reduce investor and manager myopia. According to Black (1992), when investors and managers verbally interact they can discover that they both have the same goal to ensure successful future company performance, and investors who are kept informed of senior managers' activities tend to be more tolerant of those activities.

Institutional investors can strengthen other aspects of corporate governance practices; their involvement can reduce the possibility of a senior managers'-sponsored anti-takeover and also ensure institutional investors are involved in developing better remuneration plans for themselves than managers are capable of. Black (1998) postulates that there are systemic shortfalls in corporate governance practices in the following areas: board structure and composition, corporate acquisition strategy, corporate diversification, pro-incumbent management rules, corporate cash retention policies and executive remuneration. He believes that these systemic shortfalls are amenable to institutional investors' scrutiny as they have access to relevant resources and can realise economies of scale in acting to overcome poor corporate governance practices.

Bainbridge (2005) argues that allowing institutional investors to influence the decisions of company management could set a dangerous precedent and possibly lead to large-scale chaos and disruption in corporate management, resulting in many executive director and board member elections. The orchestration of these elections in turn would interfere with and disrupt company activities.

Threatened senior managers and directors would retaliate by launching full-scale election contests including the use of multiple mail shots, full page newspaper adverts and road shows. Such contests would require enormous amounts of resources and incur substantial out-of-pocket costs, resulting in a waste of resources that could have been used more productively.

More importantly, these activities would divert the focus of directors and senior managers away from attending to the affairs of the company. While this allegation may seem plausible in theory, in practice institutional investors' involvement in corporate governance has not led to widespread chaos and the instigation of executive director and board member elections. Huyghebaert and Hulle (2004) argue that if business organisations fully understood the positive influences of institutional investors and that the benefits of institutional investors' involvement outweighed any perceived costs, they would be more proactive and encourage these professional investors to invest in the company. Davis (2003) suggests that lower profitability and poor investment allocation decisions are largely a result of the failure to address agency problems and that this may lead to corporate governance failures.

Black (1992) suggests that institutional investors' involvement can address poor corporate governance practices. Black (1992b) argues that institutional investors can add value when focussed on addressing the following process and structural issues: mixed issues, deterrence and targeting poor performance and also strengthening the board of Directors. The process and structural issues to which institutional investors' involvement can add value include those relating to board structure and composition, confidential voting, that senior managers consult institutional investors before taking action such as selling a large block of stock, creating a leveraged employee-shareholder programme and adopting golden parachutes, anti-takeover amendments proposed by corporate managers, rescinding a poison pill, and opting out of anti-takeover statutes.

In Black's opinion, a mixed issue is a corporate governance issue that affects a number of companies for which large economies of scale exist. One example of a mixed issue is executive remuneration. The yearly pay increases of a Chief Executive Officer (CEO), even when the company's profits decline, is a corporate governance practice that should be improved, for example institutional investors could ensure that the CEO's pay is structured in such a way that it does not exceed the bounds of decency and reason. Institutional investors could change the corrupt process of determining CEO pay where the CEO recruits a supposedly independent consultant to recommend a remuneration plan to the remuneration committee. Institutional investors can also encourage long-term performance to be used to benchmark executive pay.

A major concern of institutional investors in corporate governance practice is poor performing companies. Mallin (2006) states that institutional investors can use good corporate governance practices as a tool to extract value from underperforming and under-valued companies. This approach has been very successful for, amongst others, Lens Inc., CalPERS, Hermes, and Active Value Advisors. By targeting companies which are underperforming in one of the main market indices and analysing those companies' corporate governance practices, improvements can be made which unlock hidden value. These improvements often include replacing poorly performing directors and ensuring that the company complies with perceived best practice in corporate governance.

Institutional investors' involvement extends beyond corporate governance issues; institutional investors are also actively engaged in corporate social responsibility issues, triggered by the increasing environmental and social costs of business. The activities of business organisations can have a significant impact on local communities and other stakeholders. Environmental pollution, for example oil spills, can cause considerable damage to the environment and may pose severe non-financial and reputational risks to the continuity of the business as a result of lawsuits and litigations. Institutional investors' engagement in corporate social responsibility is targeted at mitigating that risk.

Disagreement exists regarding the corporate governance issues examined by institutional investors. Various researchers have classified issues into various taxonomies. Karpoff et al.'s (1996) research reveals that corporate governance issues can be classified into three main categories: external control market issues, internal corporate governance issues and compensation-related issues. They conclude that the majority of governance issues tend to focus on internal corporate governance. Wahal (1996) states that the corporate governance issues investors are concerned with include the removal of blank cheques, changing the structure of the board (requiring a greater percentage of the board to be outsiders or eliminating a classified board), separation of the roles of Chairman and CEO, prohibiting green mail, redeeming poison pill, requiring the firm to publish names of shareholder proposal proponents, opting out of state anti-takeover laws, establishing shareholder committees, and opposing target share placement.

Gillian and Stark (2000) categorised the governance issues institutional investors are concerned with into three distinct groups: issues related to the repealing of anti-takeover devices, board and committee independence issues, and voting issues. Romano (2001) alternatively classifies the governance issues into four key areas: board of Directors, takeover defences, executive remuneration, and confidential voting. Monk et al. (2004) emphasise that, in order of importance, investors are concerned with: executive remuneration, poison pill, board elections (term limits/declassification), voting, director nomination, shareholder rights, director/board independence, board leadership, director remuneration/stock ownership, auditor independence, expense stock options, strategic alternatives, board governance and dividend payments.

The work of Thomas and Cotter (2006) builds on that of Gillian and Stark (2000); it classifies governance issues into external market control issues and internal corporate governance issues. Gillian and Stark (2007) find significant change in the past two decades in the corporate governance issues addressed by institutional investors. Previously, they found that investors tended to focus on removing poison pills, classified boards and the supermajority amendment from takeover charter.

Presently however, institutional investors show increased concern regarding board-related issues, the repealing of classified boards and executive pay. There has also been a significant increase in achieving the election of directors through supermajority votes and independent board Chairmen.

2.8 Institutional Investors' Involvement in Corporate Social Responsibility

Scholarly articles on institutional investors' involvement can be categorised into three distinctive schools of thought: those which postulate that institutional investors' involvement in CSR is based on pecuniary benefits (Hockert and Moir, 2004; Haigh and Jones, 2007; Warba, 2009); those scholars who argue that institutional investors' commitment to corporate social responsibility is largely a result of regulatory reforms that stipulate they embrace CSR practices (Cox et al., 2004; Solomon, 2010); and lastly, those who suggest that institutional investors' participation in corporate social responsibility is due to their moral and ethical obligations towards the society (McWilliams et al., 2006; Starks, 2009; Godfrey et al., 2009). Aguilera et al. (2006) examine institutional investors' engagement in CSR, suggesting that their reasons for doing so can be categorised as: instrumental motive, relational motive and moral motive (Cropozano et al., 2001).

Institutional investors understand that environmental, social and governance (ESG) issues can have financial implications that can positively or negatively affect any business organisation. These investors are particularly concerned about companies' CSR practices and policies because of the competitive advantage that can be gained by addressing these issues in a proficient manner and also the competitive disadvantage that is likely to arise from their mismanagement (Kramer and Porter, 2006). Institutional investors are particularly concerned with the competitive advantage that could result from either investing in companies that outperform on these measures or alternatively, engaging with companies to enhance performance in these areas (Armour et al., 2003; Solomon et al., 2004). Instrumentally motivated institutional investors are interested in protecting the value of their investments and closely monitor the relationship between a company's reputation and its share price.

In the case of relational motive, institutional investors tend to embrace corporate social responsibility more as a result of emerging industry standards and practices. The role of institutional investors in corporate social responsibility and the strategic decisions of their portfolio companies has attracted more attention in recent years, not only from researchers but also from government and regulatory bodies. For example, in the UK there are regulatory stipulations that encourage institutional investors to state their corporate social responsibility policy. The government has played an important role in driving pension funds trustee corporate social responsibility disclosure requirements. The change in industry standards is also evident in the statement of principles of the Institutional Shareholders' Committee (2005) which encourages institutional investors to intervene when a company's approach to corporate social responsibility is considered to be inadequate and improper.

Research in the UK reveals that institutional investors' involvement in corporate social responsibility resulted from an increasing demand for ethically and socially responsible investments (Solomon, 2010). Andriof and McIntosh (2001) observe that business organisations have socio-economic and environmental impacts. Business activities generate various by-products that are harmful to society. For example, in the course of making their products, many manufacturing companies emit carbon substances that are harmful to the environment. Also, oil spills and leakages from oil companies' pipelines can have disastrous consequences for the local environment and community (Werhane, 2008). In the information communication technology sector, there are also concerns regarding the correct disposal of outdated and unsalvageable hardware which, if not disposed of properly, could be harmful to the environment.

An examination of the CSR issues upon which institutional investors' engagement focuses reveals that several issues are addressed (see Table 3 for a summary of the issues). A study by

Chidambaran and Woidtke (1999) on institutional investors' engagement examined withdrawn CSR-related shareholder proposals and found that major CSR issues include international human rights, equal employment, tobacco trading, board diversity, energy and the environment. The study also found that an estimated 20% to 45% of CSR-related proposals have been withdrawn by sponsors. In considering possible explanations for such a high withdrawal rate, sponsored CSR-related proposals are withdrawn for many reasons such as expedient negotiation and settlement between CSR institutional investors and management (Campbell et al., 1999) and it is also possible that withdrawn CSR-related proposals are addressed by existing policies and measures. CSR policies are also withdrawn if they are unpopular.

The work of Grave et al. (2001) builds upon that of Chidambaran and Woidtke (1999). It examines the nature and focus of institutional investors' engagement over an 11-year period (1988-1998). Grave et al. found that institutional investors' engagement focuses on many different issues, however the following are the most prevalent: human rights, the environment, diversity, tobacco trading, labour rights, the military, governance, political action, energy and South Africa. Of particular interest is the waxing and waning nature of CSR issues; at one time it was apartheid in South Africa and abortion that made the headlines at annual general meetings and in the media. However, with the demise of apartheid in South Africa, this has ceased to be one of the issues, but the issue of abortion continues to be relevant in the United Kingdom.

A second finding is that, while some CSR issues, such as apartheid in South Africa, tend to have a limited life span and come to a natural conclusion, there are some CSR issues such as the environment and climate change that remain relevant for a long period of time, largely unresolved and unlikely to dissipate for many years. However, more importantly, there are CSR issues that remain unresolved yet still fade naturally. Grave et al. (2001) offer some plausible explanations for these occurrences; the first is that of the shifting external regulatory environment and government policies and the other is internal factors and changes that occur within organisations.

A more recent paper by Tkac (2006) focuses on all institutional investors' proposals using data from the Investor Responsibility Research Centre from 1992–2002. Tkac (2006) finds that CSR proposals can be summarised into four key issues: external financial aid; disclosure of information; change in corporate policy; and fundamental change in operations, productions and marketing practices. Of the four key issues, the most common type of request related to a change in corporate policy or a fundamental change in operations.

The most common CSR proposals related to the following issues: antidiscrimination; environmental; domestic labour; international conduct; alcohol, tobacco, firearms; reproductive issues; miscellaneous social issues; healthcare; animal rights; military/weapons; energy; food/agriculture; corporate policy; media/TV; political contributions and executive (performance-related) pay. In conclusion, Grave et al. state that there is significant evidence to suggest that the CSR activities carried out by religious organisations, unions and socially responsible mutual funds have achieved some measure of success. Success, in their opinion, is measured by the number of CSR proposals that are withdrawn; 'a withdrawn resolution usually signals some type of action on the part of the corporation – dialogue, agreement to resolution, or some other compromise – and that can be viewed as success' (Tkac 2006: pp. 15).

2.9 Conclusion

This chapter began by defining the concept of corporate governance; it explores the theoretical perspective, the debate and academic case for the need for institutional investors in corporate governance, agency theory is used to explain the relationships between institutional investors and the managers of the companies that institutional investors attempt to influence. The significance of agency theory in institutional investors' engagement is easily observable: the most important perspective it reveals is the tension that generally exists between the principal and the agent. This tension is evident in today's modern corporations; institutional investor engagement is intent on aligning the values and goals of the principals and agents.

A variety of methods can be used to align the needs of the principal and the agent including incentives, monitoring and threat of exit. Incentives are gentle measures such as the offer of attractive bonuses and allowances to encourage agents to be more responsive to the needs of principals. It elucidates the importance of institutional investors' voice in ensuring that managers or the agents are acting in the best interests of the owners or institutional investors. It went on to explain how institutional investors' monitoring can reduce asymmetries of information and agency costs that arise as a result of the agency problem.

While the agency theory does explain the motivation behind institutional investors' involvement in corporate governance, it does fail to explain institutional investors' involvement in corporate governance. The stakeholder theory is examined to explore the reasons why institutional investors' involvement in corporate governance. The stakeholder theory offers a different explanation on the reasons for institutional investors' involvement in corporate governance. Stakeholder theory recognises that there is more to an organisation than the principal and agent. It places considerable responsibility on management, not only to identify key stakeholders, but further to encourage managers to respond to stakeholder needs. Stakeholder theory appears more relevant in explaining some of the current trends and behavioural patterns of modern day corporations, in particular the involvement of institutional investors in corporate social responsibility.

Institutional investors have gained prominence as a category of investors who influence and shape decisions made to improve corporate governance and corporate social responsibility practices in business organisations (Clarks and Hebb, 2003). This has not always been the case however; they have progressed from passive to active players in handling corporate governance and corporate social responsibility issues (Solomon, 2007). According to Hsu and Koh (2004) there has been a global surge in institutional investor shareholding in the past two decades which has significantly increased interest amongst academics, regulators and the business community in the part that institutional investors could play in improving corporate governance and corporate social responsibility practices.

Institutional investors are actively engaged in enhancing corporate governance and corporate social responsibility practices. This has occurred because of the following reasons: a spate of corporate scandals that has resulted in the collapse of multinational corporations; the increasing need for businesses to adopt better corporate social responsibility practices; deregulation of the financial markets and the growing availability of financial resources that institutional investors have been able to procure. Engagement can be seen as a vital tool used by institutional investors to influence corporate governance and corporate social responsibility practices. Exiting may not be an option for large institutional investors who have large amounts of company shares and stockholdings, as this would incur substantial loss of value in their shares and stockholdings. Their only remaining option is proactive engagement; addressing current business matters and issues and ensuring ailments are rectified, readying the firms for a productive term and ensuring that long-term shareholder value is created. Institutional investors' engagement can enhance shareholder value, reduce business risks and encourage better governance and corporate social responsibility practices.

In reviewing the literature of institutional investors' involvement in corporate governance and corporate social responsibility, the researcher finds that it is still being examined as two broadly diverse and separate elements. Institutional investors' involvement in corporate governance has largely focused on economic issues that affect the performance of the firm, however research into institutional investors' involvement reveals that there are social and environmental issues which, if not addressed or mitigated, could also affect a firm's financial performance.

However, very few research papers examine institutional investors' involvement in corporate governance and corporate social responsibility issues in an integrated manner. The norm is that research on institutional investors' involvement in corporate governance issues is conducted in isolation, to the detriment of research on institutional investors' involvement in corporate social responsibility and vice versa. Researching institutional investors' involvement in corporate governance and corporate social responsibility in such an isolated manner is problematic as it fails to reveal that institutional investors' involvement is evolving; institutional investors need to take a slightly different approach now from what has been the norm and it is essential that they embrace a holistic approach to engagement that focuses on both corporate governance and corporate social responsibility issues.

Thus far, this chapter has provided the theoretical basis for investigating this research; the agency theory has been used as a basis for examining institutional investors' involvement in corporate governance and corporate social responsibility. The various schools of thought on shareholder activism have been explored and it is the researcher's considered opinion from an extensive study of the literature that institutional investors can influence corporate governance and corporate social responsibility practices. This has provided the basis for arguing that institutional investors' engagement does influence practice in corporate governance and corporate social responsibility.

In the next chapter, the approaches used by institutional investors to engage in corporate governance and corporate social responsibility are discussed. The various methods used by institutional investors to influence corporate behaviour, policies and practices are examined and the case is made for the evolving nature of institutional investors' engagement practices.

Chapter 3: Engagement and Use of Multiple Methods in Institutional Investors' Engagement

3.1 Introduction

In chapter two, agency theory was examined in detail from the perspective of institutional investors. Agency theory confirms that institutional investors' involvement in corporate governance is crucial although it tends to focus on performance-related issues in corporate governance and fails to explain why institutional investors are involved in corporate social responsibility. The stakeholder theory examined offers some explanation of investors' involvement in corporate social responsibility. The growth and development in the UK of institutional investors' involvement was discussed and the call for increased institutional investors' involvement in corporate governance explained. The role of institutional investors' involvement in corporate governance and corporate social responsibility was examined and the issues they address were discussed.

This chapter gives a detailed explanation of the term 'institutional investors' engagement' and examines the two engagement approaches employed by institutional investors; the micro approach and the macro approach, and also explains the different methods that investors can use to influence corporate behaviour, practices and policies. The strengths and weakness of the methods are explained. The use of multiple methods in institutional investors' engagement is discussed in the context of using various methods to influence corporate behaviour, practices and policies, when a particular method has been unsuccessful.

3.2 Institutional Investors' Engagement

Institutional investors' engagement can be viewed as the voluntary monitoring and intervention by institutional investors to influence business management and organisation decisions, behaviour and practices (Clark and Hebb, 2004). Engagement provides investors with the opportunity to influence corporate behaviour. It involves addressing aspects of corporate governance and corporate social responsibility practices and policies that have an impact on the financial performance of an organisation and also the long-term wellbeing of a corporation (Yaron, 2005). For example, it could include the restructuring of the board and key executives that are considered ineffective or addressing potential social and environmental risks that may threaten to impact negatively on the corporation. Put simply, engagement is the most direct approach institutional investors can take to try to influence corporate behaviour.

Collier (2004: p.241) summarises the process of engagement in the following words:

'Engagement is based on voice and loyalty rather than exit responses of selling shares in a last-ditch fund response. It should be emphasised that institutional investors regard engagement as a process whereby they aim to achieve change over time in the CSR policy and performance of the company, hence improving shareholder value. Engagement thus targets both governance and CSR policy and practices. The methods of engagement used range from informal contacts to shareholder resolutions at annual general meetings (AGMs) to the use of media pressure and public protests, but the preferred engagement strategy is that of quiet dialogue and rational discourse.'

The definition of engagement that has been adopted for the purpose of this research, is the definition given by Collier (2004) that has been mentioned above. The purpose of engagement is to focus on influencing corporate behaviour and practices through the initiation of dialogue and negotiations, however there are a range of methods institutional investors can apply (McLaren, 2004). Engagement usually begins with a non-confrontational approach (Collier, 2004; Sparkes and Cowton, 2004) and is more proactive in nature; instigating discussions on a range of issues in order to find common ground and resolve disagreements between institutional investors and management. However, investors may find they need to assert themselves in order to gain the attention of management (Pierce and Ganzi, 2002). The aim of institutional investors' engagement is to bring about positive change in corporate behaviour on issues ranging from poor corporate governance to social, ethical and environmental practices and the potential risks that those issues may pose to the corporation (Sparkes and Cowton, 2004). Engagement is not a one-off event but must occur over a period of time in order to achieve improvements and significant progress in changing poor corporate governance and corporate social responsibility practices. It is therefore important that investors proceed with a great deal of patience as they encourage business organisations to adopt better corporate governance and corporate social responsibility practices (Solomon, 2010).The approach was developed to fulfil institutional investors' aspirations to change the way corporations interact with and affect society (Kinder, 2004).

The initial debate on institutional investors' engagement tended to focus on which firms attract engagement and intervention (Romano, 2000). Research suggests that firms that are performing poorly are more likely to attract engagement by investors (Gillan and Stark, 2000); performance in this regard is examined more from a financial perspective. Financial indicators such as sales, profitability and turnover are the key indicators and parameters for assessing performance (Pound and Gordon, 1993; Smith, 1996; Romano, 2000; Gillian and Stark, 2000). In addition to poor performance, institutional investors also intervene as a result of poor governance practices (Gillan and Stark, 2007).

The research progressed to examine the influence of institutional investors' engagement and whether it improved company performance. There are three schools of thought: those who think that institutional investors' engagement adds value to the company and also improves the performance of the firm (Smith, 1996; Gillian and Stark, 2002; Del Guerico et al., 2006; Becht et al., 2007); those who believe that institutional investors' engagement is unlikely to cause any significant organisational or policy changes and that therefore institutional investors are unlikely to have any positive effects on a firm's performance and value (Karpoff, 2001; Brav et al., 2006; Nelson, 2006); and those who maintain that institutional investors' engagement has a detrimental effect on company management, harms performance and in the long run decreases the value of the firm (Bainbridge, 2005). The researcher believes that institutional investors' engagement can influence corporate governance and corporate social responsibility practices, as discussed extensively in the previous chapter. Institutional investors' engagement can be executed using two different approaches: the micro and the macro approach. The next section discusses the various approaches to institutional investors' engagement.

3.3 Approaches to Institutional Investors' Engagement

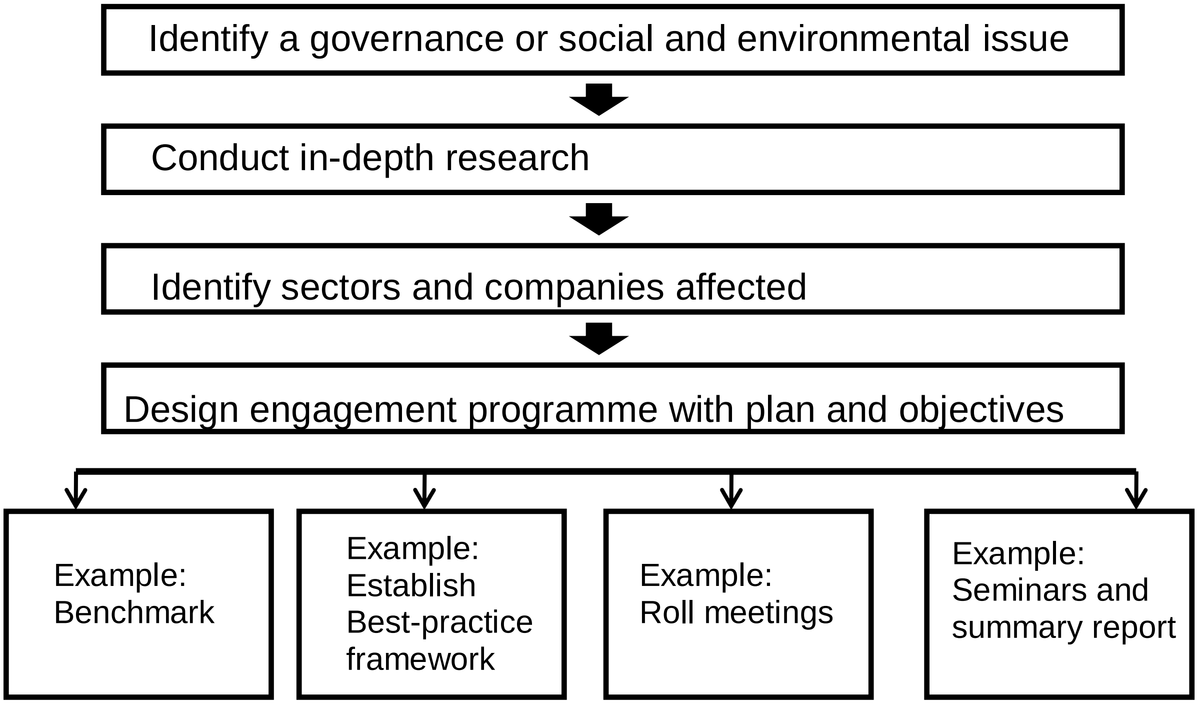
The approaches to engagement have not been extensively explored. There are indications that some research exists but the extent is difficult to estimate (Lydenberg, 2007). Dresner (2002) and Kleijen (2006) briefly explained that institutional investors have two approaches to engagement: the micro and the macro approach.

3.3.1 The Micro Approach to Engagement

In relation to the micro approach to engagement, institutional investors focus on certain companies and deal with more company-specific issues. Rather than using a public campaign to raise awareness of a particular issue, institutional investors prefer to engage with senior company managers to address their concerns.

The micro approach to engagement addresses company-specific issues such as those relating to a company's operational characteristics or strategic business as well as sector-specific social and environmental standards. The focus of institutional investors' engagement on company-specific issues is intended to influence corporate governance and corporate social responsibility practices/policies, usually with an economic rationale dictated by the investors. Institutional investors who use a micro approach to engagement typically argue that issues are likely to pose a threat to shareholder value and thus press senior management to engage in dialogue to address specific issues.

Figure 3: A Framework for Institutional Investors' Engagement



Source: Sullivan and Mackenzie (2006: p 35)

In Figure 2 above, Sullivan and Mackenzie (2006) use an issue-led approach or thematic approach to engagement; firstly identifying important emerging environmental and social issues which they believe pose significant risks to the businesses in which they invest. Secondly they undertake in-depth research to identify the sectors and companies that are most vulnerable and exposed to those risks. Lastly they design an appropriate engagement programme to address issues. Insight Investment may communicate in writing or meet with a company, non-governmental organisation or other institutional investor. Meetings with companies to resolve issues may occur several times a year. They also respond to issues that are brought to their attention by the media, other institutional investors and non-governmental organisations. The primary focus of their engagement is to ensure an improvement in the quality of corporate governance and corporate social responsibility practices/policies. Kleijen (2006) notes that in the use of a micro approach to engagement, institutional investors are focused on addressing company-specific issues; thus the dialogue that ensues between institutional investors and companies is usually focused on areas of corporate governance and corporate social responsibility practices that are of upmost importance to the company.

3.3.2 The Macro Approach to Engagement

The macro approach to engagement can only be pursued by those institutional investors with a more robust or mature research and engagement methodology. Institutional investors who take a macro approach to engagement are focused on influencing the adoption of best practice across specific industrial sectors of the business community. Kleijen (2006) notes that in taking a macro approach to engagement investors tend to examine a sector or a numbers of sectors which are experiencing a particular issue and then develop an engagement programme to address that issue in those sectors. In 2006, Insight Investment engaged with companies that had high emission issues such as Centrica, British Gas, International Power, National Grid, Scottish Power, and Scottish and Southern. Following the engagement exercise, Insight Investment published a series of recommendations for European electricity companies including how to best report emissions. Institutional investors who make use of the macro approach to engagement tend to make reference to their economic and moral rationales towards their engagement to senior managers. The economic rationale tends to centre on the importance of long-term sustainable economy while the moral imperative is centred on fund managers' responsibility to contribute to sustainability (Collier, 2004).

Dresner (2002) finds that when institutional investors are faced with the opportunity to choose between the use of micro or macro engagement, they differ in opinion. Dresner's findings reveal that the perception of the macro approach to engagement was inconclusive and a consensus lacking as to its efficacy. Some institutional investors considered it a sensible approach, others that it was impractical and a third group failed to agree whether it would yield a positive or negative result in the engagement process. However about two thirds of institutional investors unanimously agreed that the use of a micro approach to engagement was more effective when targeting specific companies (Dresner, 2002). Once institutional investors have chosen a micro or macro approach to engagement, they must then consider the range of methods that are available with to engage with companies or business firms with which they have specific concerns.

3.4 Methods of Engagement/Activism

Within the engagement literature, the various types of engagement are not clearly defined. Hendry et al. (2007) observe that institutional investors employ various approaches to engagement and make use of different methods with which to practice engagement. Pierce and Ganzi (2002) suggest that there are five methods of engagement, and Collier et al. (2004) classify engagement into four different groups (see Table 4). Although there is disagreement surrounding the various methods of engagement, there is a consensus that the preferred approach to engagement is the use of dialogue (Wahba, 2009) and it is only when this method has failed to achieve the intended outcome that investors pursue another form of engagement.

The outcomes of dialogue and negotiation to a great extent can determine what happens next. In instances where dialogue yields tangible results, it is unnecessary for institutional investors to pursue other forms of engagement. However, dialogue does not always produce satisfactory outcomes for institutional investors and in these instances they employ other types of engagement. Engagement methods are considered in the following manner: methods that are similar will be discussed collectively, for example dialogue and negotiation; and the same approach will apply to collaboration and collective engagement, as well as public media and the use of media pressure. Different engagement methods such as mixed engagement and confrontational engagement will be discussed subsequently.

Table 2: Methods of Engagement

Pierce and Ganzi (2002)	Collier (2004)
Dialogue and negotiation	Informal dialogue
Collaboration	Shareholder resolution
Voting	Use of media pressure
Shareholder resolution	Public protest
Public campaign	
Buying shares	

3.4.1 Dialogue and Negotiation

Logsdon and Van Buren (2009) suggest that dialogue and negotiation may consist of any of the following activities: a private meeting between institutional investors and senior managers, investors sending electronic mail to senior managers informing the managers of their concerns, or institutional investors meeting with management and undertaking a specific sight visit (Breen, 2008). As mentioned earlier, various researchers agree that the use of dialogue and negotiation is the most preferred method of engagement (Sparkes and Cowton, 2004; Solomon, 2010). Vandekerckhove et al. (2007) also acknowledge that dialogue is the most preferred approach by investors whose aim is to optimise return on their market-wide portfolio and who engage with corporations to encourage them to enhance/improve their non-financial performance.

Solomon (2010) finds that investors are keen to engage in informal dialogue and negotiation with the managers of companies in which they invest on a regular basis. He observes that dialogue is developing and becoming a more interactive communicative process between managers and investors. Collier (2004) acknowledges that the form these dialogues take varies between investors; possibly an intensive questioning debate between investors and managers or a quiet conversation/discussion. The duration also varies depending on the managers' responses to questioning; it is expected that fewer disputes would occur in dialogues where investors and managers are in agreement than those where investors and managers express differences in opinions and attitudes.

3.4.2 Shareholder Proposals/Resolutions

The use of shareholder proposals as a tool or mechanism with which to influence and change corporate behaviour has been widely used by religious organisations, fringe investors, institutional investors, non-governmental organisations and unions (Clark and Crawford, 2012). According to Monks et al. (2004) institutional investors have, at a basic level, sought to influence managers of publicly-listed companies through a mechanism that promotes accountability and transparency. A shareholder resolution is simply a proposal submitted by investors for ballot at the company's annual general meeting on a specific environmental, social or governance issue about which institutional investors are dissatisfied. Ramsay et al. (2000) suggest that voting can be seen as one of several mechanisms used in minimising the divergence of interests between senior corporate executives and investors. According to Martin and Nisar (2007) voting forms a very essential part of investors' approach to corporate governance and corporate social responsibility as votes cast on key management issues enable stronger management focus on the issues and interests of shareholders. They further suggest that the process of voting can be made more meaningful when consideration is given to votes which are consistent with well-considered policy towards enhancing the corporate governance of companies and markets.

Sparkes and Cowton (2004) maintain that investors make use of shareholder resolutions when initial discussions with managers fail to resolve disputes regarding particular issues that are of concern to the investors. Hebb et al. (2012) maintain that when compared to corporate dialogue, the results of shareholder proposals prove to be much easier to quantify and assess as it is obvious when a shareholder proposal has received or failed to receive a majority support. Even when shareholder proposals fail to achieve a majority support, they tend to be credible as the firm's practices or policies have been exposed to a variety of stakeholders beyond merely shareholders.

O'Rourke (2003) suggests that when a proposal is submitted, there are generally three possible outcomes:

1. The proposal may be withdrawn by the shareholder.
2. The proposal may be omitted or excluded by the company.
3. The proposal can be presented at the shareholder meeting for ballot, and possibly resubmitted if it garners enough support.

Withdrawal of Proposal by the Shareholder:

A study of institutional investors' engagement by Chidambaran and Woidtke (1999) examined withdrawn shareholder proposals and they found that an estimated 20% to 45% of proposals were withdrawn by sponsors. Sponsored proposals are withdrawn for many reasons including earlier negotiation and settlement of issues by institutional investors and management (Campbell et al., 1999). It is also possible that withdrawn proposals had been addressed by existing policies and measures or had been unpopular.

Omission or Exclusion of Proposal by the Company:

O'Rourke (2003) states that there are six identifiable reasons for the exclusion of a proposal including:

1. The proposal relates to the operation which accounts for less than 5% of the company's total assets at the end of the fiscal year.
2. The absence of power or authority on the part of the company to act – the company would lack the power or authority to implement the proposal.
3. Management functions – the proposal deals with a matter relating to the company's ordinary business operations.
4. The proposal has already been substantially implemented.
5. Duplication – the proposal substantially duplicates another proposal previously submitted to the company by another proponent included in the company's proxy material for the same meeting.

6. Insufficient votes received at first submission of proposal.

The Proposal is presented at the Shareholder Meeting for Ballot

When all the above conditions are met and the proposal is submitted to the shareholder annual meeting, investors then solicit support (and thus vote) for their shareholder resolution which includes the identification of shareholders or proxy voters and generation of endorsement from major shareholder groups or proxy advice groups. A substantial body of literature has examined whether shareholder proposals influence corporate behaviour and practices and can be categorised into two main schools of thought: that shareholder proposals influence corporate behaviour and practice, and that shareholder proposals fail to influence corporate behaviour.

Earlier studies reveal that the influence of shareholder proposals on corporate behaviour and practice is dependent on the identity of the sponsor of the proposal; the issue addressed by the proposal, insider ownership, institutional ownership, the number of times a proposal has been submitted, the governance structure of the targeted firm and whether the proposal is related to the removal of anti-takeover mechanisms are of vital significance to its success (Pound, 1993; Wahal, 1996; Del Guerico and Hawkins, 1999; O'Rourke, 2003; Gillian and Stark, 2000; Monks et al., 2004; Gillan and Stark, 2007). Research has shown that favourable votes have been higher in cases involving repeal proposals, proposals by public pension funds, companies with fewer insiders, companies that have performed poorly on the stock market and smaller companies (Karpoff, 2001; Tkac, 2006). Additionally, there is evidence to suggest that proposals sponsored by institutional investors, labour unions or coordinated shareholder groups have also received substantially greater support than proposals sponsored by individual investors (Wahal, 1996; Bethel and Gillan, 2000). Research also shows that governance proposals typically receive greater support than social responsibility proposals (Monks et al., 2004).

Conversely, several studies conclude that shareholder proposals are generally ineffective and unlikely to cause significant organisational or policy change. Thus, it is deemed that shareholder proposals can have a negligible effect on a firm's performance and value. It could be argued that this is not surprising given the agency problems that are likely to exist between investors and managers. In support of this view, the works of Wahal (1996), Karpoff et al. (1996), Romano (2002), Brav et al. (2006) and Nelson (2006) find that there is no significant improvement in terms of the operating performance and share price movements of companies that are targets of shareholder proposals. Such research has been mostly positivist in nature and has examined stock market reaction in the short and long-run as well as companies' profitability after proposals have been submitted.

There are practical explanations for the difference in results. Karpoff (2001) suggests that researchers tend to define success in institutional investors' engagement differently, using terms such as 'effective,' 'ineffective' and also 'successful' and 'unsuccessful' to characterise institutional investors' engagement with target companies. A major discrepancy occurs in their conclusions however, that authors define success differently. The definitions of success used by researchers include increase in share value, increase in accounting measures of performance, change in operations or management, actions sought by the activist are adopted by the targeted firm, actions are taken that are attributed to shareholder pressure, and shareholder proposals receive high voter support (Wahal, 1996; Del Guerico and Hawkins, 1999; Romano 2000;Gillan and Stark, 2002).

3.4.3 Collaborative Engagement and Collective Engagement

Collaborative engagement and collective engagement occurs when two or more investors join forces to engage a company on a particular issue of concern. McLaren (2004) observes that, theoretically, the use of collaboration increases the effectiveness of engagement by enhancing leverage and also reducing free-rider costs. The UK Social Investment Forum (UKSIF: 2003) notes that investors use a collaborative approach to communicate with companies and discuss their shared concerns, also highlighting a collective position on environmental, social and governance issues, for example, the public health crisis in emerging markets. Becht et al. (2006) observe that [6]Hermes Investment uses a collaborative engagement approach when companies have similar corporate governance or corporate social responsibility issues that must be addressed.

According to Mansley and Dulgolecki (2001) individual investors are likely to make a significant impact on corporate behaviour, however success is much more likely if there is collaboration between a number of institutional investors, especially when the activity is structured as a formal initiative. Such collaborative initiatives could also address company-specific engagement activities. The specific merits of collaboration include:

- the potential to reduce the costs of the initiative to a level acceptable to individual institutional investors and other financial institutions, also reducing the likelihood of 'free-riders' who might benefit from the activity without actually contributing;
- increased effectiveness, both in hard financial terms (i.e. representing more of the market and a larger pool of capital) and those of credibility and influence both with corporations and the public policy process;
- improved management of the learning challenges and reputational risks of this new and potentially controversial area.

Black and Coffee (1994) highlighted that collaborative engagement was relatively infrequent and coalitions small and rare. They find that most institutional investors in the UK persist in the practice despite poor results. In addition, they argue that collaborative engagement is expensive to implement in practice and the free-rider problem persists. However, they conclude that UK institutions are more involved in corporate governance than their US counterparts but institutional investor activity in the UK is still constrained by costs associated with forming and maintaining

[6] Hermes Investment is a multi-specialist asset manager fully owned by BT pension scheme and it is one of UK largest pension fund scheme; who focus on a long term responsible approach to investing and delivering returns. It has an estimated £25.7 billion pounds under management.

coalitions and limited incentive for money managers to invest in monitoring. Thus, the British experience suggests one lesson the United States could implement to enhance collaborative engagement; reduce regulatory controls and institutional investors will become more active.

It has been more than 17 years since the publication of Black and Coffee's research and, in the UK, institutional regulatory reforms introduced by the Cadbury, Myners and Hampel reports have strengthened institutional involvement in investee companies (Mallin, 2006; Solomon, 2010). As the size of UK institutional investors increases, they absorb more easily the costs of monitoring, and technology advances have significantly reduced communication costs associated with collaborative engagement.

Sullivan and Mackenzie (2006) believe that collaborative engagement allows investors to present a consistent and unified voice on corporate social responsibility issues (thereby ensuring that companies are not facing competing and contradictory priorities from different investors) whilst also broadening the group of investors that target a specific issue. In addition, issues such as free-riding, the risk of lowest-common-denominator approaches and the possibility of significant transaction costs potentially limit the use of collaboration as an activism strategy. There are two types of free-riding that affect collaborative initiatives: individuals using participation to demonstrate their 'commitment to activism' (even when their contribution has been minor) and; shareholders who are not party to the collaborative effort benefiting from the resultant improvements in corporate governance or corporate social responsibility performance.

Collaborative investor activity has also been hindered by the lack of a clear, shared view on the standards shareholders should expect of companies in relation to corporate social responsibility issues. Whilst a consensus exists regarding the systems and processes that companies should have in place (e.g. corporate policies, clearly defined responsibilities, performance monitoring and reporting), the specific performance measures (or outcomes) are not so obvious. The challenge of achieving consensus has meant that the lowest-common-denominator approach (i.e. a focus on management systems and processes) has prevailed. Whilst this is an important contribution to addressing rationality issues, it is not clear how well these address market failure issues. Finally, it has been observed that large-scale collaborative initiatives involve significant time and effort and tend to have long lead times and are highly bureaucratic.

3.4.4 Public Campaigns

Investors who have been unable to resolve engagement issues through dialogue (Lipton, 2008) use the media to publicly reprimand directors and senior management. Pierce and Ganzi (2002) note that, from a survey carried out by the Future Centre for Sustainable Development and the Finance Institute for Global Sustainability, only one UK investor would contemplate a public campaign as a tool for investor engagement. Conversely, many US investors use, or threaten to use, public campaigns as a key engagement tool, for example RiskMetrics has made use of the media spotlight, encouraging shareholders to vote against members of Citigroup's remuneration committee (Lipton, 2008).

3.4.6 Buying Shares to Increase Influence

Pierce and Ganzi (2002) maintain that buying shares to increase influence is a particular strategy that has been used successfully in the UK. For engagement to be effective in this approach a close relationship with and an adequate knowledge of the company is required. Although this model seems promising, most UK investors do not regard it an appropriate tool for engagement.

3.5 Classifications of Engagement

Becht et al (2006) classified engagement into three distinct categories, collaborative, confrontational and mixed, collaborative engagement has already been discussed above, so the focus will be on confrontational and mixed engagement.

3.5.1 Confrontational Engagement

Confrontational engagement, as the name implies, is an approach in which investors apply a degree of pressure and is most likely to occur when investors and senior company managers disagree over a particular issue. According to Becht et al. (2006) engagement is classified as confrontational when a CEO initially rejects a proposal for change or does not make changes voluntarily throughout an engagement period. Other engagement activities targeted at replacing the CEO and/or Chairman against their own will were also classified as confrontational.

3.5.2 Mixed Engagement (Collaborative and Confrontational Engagement)

Mixed engagement is an approach that is limited in use; the researcher finds that this approach is at present employed solely by Hermes Investments in situations where collaborative and confrontational engagement strategies are used by investors to persuade managers of particular companies to change their behaviour. In mixed engagement, the demands of Hermes Investments were reluctantly met by senior managers of the companies in question. Surprisingly, Hermes Investments find that the best results were generated by the use of mixed engagement with a success rate of 55.1%, while the use of collaborative engagement accounted for 14.1% and confrontational engagement 30.5% (Becht et al., 2006).

There are some similarities between collaborative and mixed engagement; these two methods usually involve coalition and collaboration between various investors concerned over a particular issue. Collaborative engagement, to some extent, is regarded as more extensive than dialogue as it involves several investors who are collectively concerned over an issue. Media pressure, public campaigns and protests are similar in some contexts: targeted at raising public awareness of issues. The use of media pressure is rather expensive to implement as an engagement strategy and may be detrimental to the reputation of a company as damaging information about the company’s practices is made available for public scrutiny. This can affect not only how the public views the company, but also its share price and eventually shareholder value.

Generally, institutional investors tend to resort to voting when dialogue fails to produce the desired outcome. Compared to other methods of engagement, dialogue is more popular among investors; the least costly and least likely to lead to confrontation. Telephone communication, letters, e-mails and meetings with management are inexpensive and can be productive in resolving issues with senior management. However, dialogue does not always conclude favourably (Collier, 2004), even after persistent use, forcing investors to rethink their strategy and employ more suitable methods to communicate their message.

3.6 Use of Multiple Methods of Institutional Investors' Engagement Strategies

The traditional shareholder activist approach has examined institutional engagement through the lens of agency theory. Although agency theory is creditable, it is not comprehensive. Research surrounding institutional investors' engagement has focused more on performance-related issues and the ways in which investors' engagement can address poor performance earnings and underperforming board members. Traditionally, shareholder activism has clearly focused on [7]short-termism or the short-term. Short-termism exists in situations where corporate stakeholders – investors, managers, board members and auditors – favour strategies that add less value but result in earlier payoff relative to strategies that would add more value in the long run. Such short-term strategies are often based on accounting-driven metrics and profit maximisation that fail to fully reflect not only the complexities of corporate management and investment but also the significant opportunities and risks associated therein. Such strategies are focused on enhancing profit maximisation, earnings per share, increase in market share and short-term market reactions (Pound and Gordon, 1993; Smith, 1996; Romano, 2000; Gillian and Stark, 2000).

[7]Short term approach in the researchers opinion is a period of time that is less than one year or consisting of a few months.

Stakeholder theory reveals that institutional investors' engagement addresses more than corporate governance issues relating to company performance and performance of the board. Institutional investors also address corporate social responsibility issues previously considered unimportant and inferior. In the past the prevailing argument was that the sole aim of corporations was to create profit for shareholders and that any harmful social and environmental impacts created by corporate activities are the responsibility of the government(Carr 1996). Institutional investors have since changed this perception as their engagement in corporate social responsibility issues is seen as equally important as their engagement in corporate governance issues. Institutional investors acknowledge that the corporations in which they have vested interests have a responsibility to monitor social and environmental issues that may otherwise threaten the sustainability of their businesses. The emerging trend in UK institutional investors' engagement is that investors tend have a broad mandate (Monks et al., 2004; Solomon, 2010; Hendry et al. 2007, Gifford, 2010).

Although significant progress has been made, the research into institutional investors' engagement tends to examine engagement in corporate governance and corporate social responsibility as two different and separate research fields. The researcher believes this gap needs to be addressed. Institutional investors' engagement is evolving, and it is necessary for research to begin investigating engagement in corporate governance and corporate social responsibility in an inclusive manner. Current business and management research on corporate governance and corporate social responsibility shows both are equally important and can affect a firm's performance (Solomon, 2010). It is the author's opinion that inclusive research in the field of institutional investors' engagement on corporate governance and corporate social responsibility will yield useful insights intothe advancement of institutional investors' engagement practices.

Institutional investors' engagement must now focus on long-term sustainable strategies: the [8]long-term approach includes ensuring that company performance goes beyond maximising shareholder value to include enhancing environmental, social and governance (ESG) standards. According to Hebb (2008), institutional investors' engagement does not require companies to sacrifice long-term profitability; rather it requests higher corporate standards from corporations in order to reduce risk over time. Though such corporate standards are often referred to as corporate social responsibility (CSR), it is important to note that institutional investors' engagement isnot solelyconcerned with the long-term interests of shareholders. Hebb et al. (2012) acknowledge that since the aftermath of the financial market crash in 2008, many institutional investors are using their influence to engage, and in some cases aggressively challenge the management of corporations in order to improve ESG standards of corporations in which they invest. Such activity is focused on enhancing long-term shareholder value for future beneficiaries.

Furthermore, Hendry et al. (2007) emphasise that a broader variety of issues is addressed, covering investment and acquisition decisions and board effectiveness and transparency, as well as specific governance issues such as remuneration, contract terms and board structure. To pursue these issues, new administrative structures and practices have been developed and new channels of communication opened up between investors and the companies in which they invest, and between investors themselves. Institutional investors have research teams who extensively investigate and examine potential financial and non-financial risks that may pose significant threats to companies in which they have shareholdings (Clark and Hebb, 2005).

The traditional shareholder activist approach posits that institutional investors' engagement employs shareholder proposals, public campaigns and media pressure to influence corporate behaviour, practices and policies. Previously, institutional investors were afforded the opportunity of exiting

[8]Long term approach in the researcher's opinion is a period of time that consists of a period of five to thirty years or more.

corporations which they deemed were underperforming, but this option is no longer profitable for institutional investors as a result of their size; exiting would lead to a significant fall in share price and loss of value for institutional investors. The more advantageous alternative is for investors to use their influence to change the corporate behaviour and practices of erring corporations. Extensive examination of the empirical literature shows that the traditional approach, thus far, has largely focused on the static nature of institutional investors' engagement and has failed to take a long-term perspective to reveal how institutional investors' engagement has progressed over a period of time. A review of the extant literature on institutional investors' engagement reveals that institutional investors tend to use one method of engagement. Existing research has debated extensively institutional investors' use of various methods of engagement (dialogue, shareholder proposals/resolution, voting, collaborative engagement, public campaigns/use of media pressure), however discussion has focused on the use of each method and strategy in isolation and not in a continuum.

For example, dialogue, gentle negotiation and rational discourse are considered the most preferred methods and strategies of institutional investors' engagement (Collier, 2004; Sparkes and Cowton, 2004; Solomon, 2010). Whilst there are advantages to the use of dialogue, there is evidence to suggest that the results of corporate dialogue are difficult to quantify, that dialogue is not always productive and can fail to influence corporate behaviour (Collier, 2004). When failure occurs, what action do institutional investors take? What alternative routes are available? Research in this area is sparse; few, if any, have examined the use of multiple methods in institutional investors' engagement. This research aims to illuminate the action institutional investors take when a particular method of engagement does not produce the intended outcome. In so doing, the research seeks to contribute to the existing body of knowledge on institutional investors' engagement in corporate governance and corporate social responsibility.

3.6 Conclusion

This chapter has explained the various strategies and methods used by institutional investors to influence corporate governance and corporate social responsibility practice and behaviour. It goes on to show the macro and micro approaches used by institutional investors - the macro approach is adopted by institutional investors who intend to influence specific firms or industries, while the micro approach is used by institutional investors who intend to engage specific companies. The choice of approach does have a significant influence on the strategy and methods applied by institutional investors.

The various strategies and methods of engagement that can be applied by investors to influence the behaviour of companies have been examined. It would seem that dialogue is the more popular choice among investors; it is also the least costly and least likely to lead to confrontation. However, dialogue does not always conclude favourably, even after persistent use, forcing investors to rethink their strategy and employ more suitable methods to communicate their message. Media pressure, public campaigns and protests are similar in some contexts: targeted at raising public awareness of issues. The use of media pressure is rather expensive to implement as an engagement strategy and may be detrimental to the reputation of a company as damaging information about the company's practices is made available for public scrutiny. This can affect not only how the public views the company, but also its share price and eventually shareholder value. Shareholder proposals are seen as a useful means of influencing corporate behaviour.

The use of shareholder proposals is inexpensive in comparison to the use of public campaigns and media pressure. Collaborative engagement can be considered instrumental in influencing corporate behaviour; a group of investors pooling their resources can significantly influence corporate behaviour and practice. The use of multiple methods in institutional investors' engagement is explained and discussed in the context of the application of various methods of engagement to influence corporate behaviour, practices and policies; when a particular method fails to address the needs of institutional investors.

In reassessing the literature on the approaches and methods that institutional investors use to influence corporate behaviour, the research finds that there is ambiguity in the examination of the literature. The research on the methods of institutional investors' engagement in corporate governance and corporate social responsibility reveals that institutional investors use dialogue, shareholder proposals, collaborative engagement, public campaigns and the buying and selling of shares to influence corporate behaviour, practices and policies. These methods have been examined in isolation and not in a continuum. A minority of research papers disclose instances where a particular method or approach fails; the use of shareholder proposals or dialogue may not yield the necessary changes in corporate behaviour, practices and policies that institutional investors intended. What is the reaction of institutional investors in such situations, do they pursue an alternative course of action? Research into the methods of engagement is advancing; institutional investors are beginning to apply a variety of methods in corporate governance and corporate social responsibility in order to influence corporate behaviour, practices and policies.

This chapter thus far, has examined the various strategies and methods used by institutional investors to influence corporate governance and corporate social responsibility. It has identified that that the methods used by institutional investors in influencing corporate governance and corporate social responsibility tend to focus on the use of one method and not the use of a variety of methods, especially in situations when the first method fails to yield the desired outcome.

In the following chapter, the researcher explains and justifies the research philosophy, methodology and methods that have been used in investigating institutional investors' engagement in corporate governance and corporate social responsibility.

Chapter 4: Research Methodology

4.1 Introduction

In the previous chapter, the term 'institutional investors' engagement' was explained in great detail and the macro and micro approaches to engagement were described. The various methods and strategies used by institutional investors to influence corporate behaviour, practices and policies were discussed. Extant literature was used to exemplify and argue that institutional investors' engagement in corporate governance and corporate social responsibility is evolving. Institutional investors' engagement in corporate governance and corporate social responsibility is no longer investigated as two separate areas but in a more inclusive manner. This chapter begins by discussing epistemology and research philosophy, methodology and methods that the researcher employed. The chapter explores the epistemological stance and lenses that have been adopted to examine institutional investors' engagement related to corporate governance and corporate social responsibility practices. The choice of a positivist philosophy is justified and the design of the research explained. The selection of content analysis as the tool for the analysis of the research data and the data analysis procedure are explained.

4.2 Research Philosophy and Epistemology

Research philosophy is mainly concerned with rigorously establishing, regulating and enhancing the methods of knowledge creation in all fields of intellectual endeavour (Chia, 2002). Easterby-Smith et al. (2008) suggest three significant benefits to understanding research philosophy. Firstly, it is very useful in clarifying research planning. This involves not only considering what kind of evidence is required and how it is to be gathered or interpreted, but also how this evidence will provide sound answers to the basic questions being investigated in the research. Secondly, knowledge of philosophy can help the researcher recognise which research plan will work and which will not (Baker, 2003), as it enables the researcher to understand the limitations of a particular approach.

Thirdly, knowledge of philosophy can aid the researcher in identifying, and even creating, research plans which previously would have been beyond his scope. At the heart of research philosophy is the controversial debate of how knowledge can be best created (Chalmer, 1990).

Epistemology is a branch of philosophy that examines the nature, origin and limits of knowledge. According to Bryman (2007) epistemology is basically concerned with the question of what is or what should be regarded as acceptable knowledge in a discipline. Cruz (2003) explains that epistemology is an attempt to make sense of the possibilities, nature and limits of human intellectual achievement. He suggests that epistemology aims to investigate specific domains of knowledge or rational belief. In epistemological investigation, the aim is to reflect on the methods and standards through which verifiable knowledge is achieved (Girold-Sevile and Perret, 2001). It endeavours to characterise the type of knowledge a given method of study might yield about a certain type of subject matter, and to what extent that type of knowledge conforms to what is accepted as genuine knowledge (Harre, 1972).

Hallebone and Priest (2009) state that an epistemological stance in business and management research can be classified into two main categories: positivist and interpretivist epistemology. Adopting the epistemological stance in any research has serious implications for the research as a whole, as the epistemological stance defines and influences the theoretical perspective, methodologies and methods used in executing the research, as well as the overall research strategy and approach (Zikmund 2003). To a great extent, the epistemological stance has a significant influence on the reasoning and logic adopted in answering the research questions.

There are two possible means of producing academic knowledge: using scientific inquiry and the use of deductive methods such as observation and experimentation (Remenyi et al., 2005) and; through the use of social constructions and interpretivsm (Gill and Johnson, 2002). Crotty (1998) emphasises that there are four key elements which all research must address: the philosophical world view or epistemological stance; the theoretical perspective; the methodology and; the research methods used to answer the research questions posed by the researcher.

4.2.1 Positivism

In simple terms, positivism demands that scientific knowledge is positively verifiable, in contrast to dogmatism, speculation or superstition (Delanty, 2005). On a broader spectrum, positivism is an approach that applies scientific methods to human affairs perceived as belonging to a natural order that is open to objective enquiry and investigation (Hollis, 1995). The aim of logical positivism was to defend science and distinguish it from metaphysics and religious discourse, which were dismissed as non-scientific nonsense (Chalmers, 1990).

The positivist also endeavours to cleanse scientific knowledge of speculative and subjective viewpoints through the use of mathematics and logic and in so doing, provide an analytical statement about the observed world (Chia, 2002). The positivist believes that it is possible to be objective in scientific inquiry, that the social world can be observed in an objective manner and that data can be gathered in order to test theoretical predictions (Klee, 1997). Explained in another way, positivists reason that if scientists rid themselves of their biases, they would be able to grasp the facts of reality and would then be able to test various theories to determine which best explained those facts (Fay, 1996). Positivists believe that empirical observation and testing free of preconception are the means by which theories are explained and verified, therefore there is a strong emphasis on techniques such as observation, measurement and quantification (Fay, 1996).

An alternative philosophical research perspective is interpretivist epistemology. Darlaston-Jones (2007) emphasises that the fundamental contention of interpretivist epistemology is that reality is socially constructed by the individuals who experience it (Gergen, 1999). From the interpretive perspective, reality is determined by people rather than an objective external factor (Easterby-Smith 2008). Burell and Morgan (2011) state that the interpretivist paradigm is informed by a concern to understand the world as it is; to understand the fundamental nature of the social world at the level of subjective experience. Intepretivists have a subjective view of reality (Guba and Lincoln 2005). Unlike the positivist, the interpretivist denies that only one real world exists and has different beliefs about the concept of reality (Hudson et al., 1988). According to Berger and Luckman (1967) reality is no more than a social construction and all human knowledge is advanced, disseminated and maintained in all social situations. The intention of the interpretivist is not to discover reality, since he perceives that multiple realities exist and are continuously changing, rather the interpretivist is more concerned with understanding social realities and social actions (Schwandt, 2000). Invariably, the interpretivist is interested in developing an understanding of the culturally shared meanings, the perspective and rationale of those involved in creating these social realities and the context in which these constructions are occurring (Hudson et al., 1988).

The choice of the positivist approach is, to a large extent, a result of the ontological position of the researcher who believes that reality is external, objective and knowledge significant only when it is based on the observation of an external reality. The researcher believes that a social world exists externally and its properties should be measured by objective methods, rather than via subjective reflections and intuitions (Easterby-Smith, 2008). In the fields of accounting, finance, business and management elements can be studied as hard facts and the relationships between these facts can be established as scientific laws. In the researcher's opinion institutional investors' engagement in corporate governance and corporate social responsibility has been extensively documented: the issues, strategies and methods are well known, have been discussed at length and can be easily quantified, measured and verified. For example, executive pay, an area of concern for investors, is quantifiable; it is easy to measure how much an executive is paid. Also, it is easy to verify whether an executive is performing well and company performance can be measured via gross earnings and profits. The strategies which have been listed and outlined in the literature can be quantified, as can the outcome of particular strategies. In addition, the research philosophy must be relevant to address the questions set out in the first chapter of the research:

1. What are the types of corporate governance and corporate social responsibility issues with which institutional investors are concerned?
2. How do institutional investors' use multiple methods in engagement, especially in relation to those strategies that do not seem to achieve the desired outcomes?

It is the researcher's belief that the above questions are best addressed in a positivist philosophical context and that the corporate governance and corporate social responsibility issues with which institutional investors are concerned have been quantified in the existing literature. Also, the strategies and methods used by investors to influence corporate behaviour, practices and policies such as shareholder proposals, voting and public campaigns are quantifiable. For example, the number of proposals that an institutional investor puts forward can be counted and easily ascertained. Previous research into institutional investors' engagement in corporate governance and corporate social responsibility has adopted a positivist philosophy in investigating these issues. The work of Del Guericio and Hawkins (1999); Gillian and Stark (2000); Grave et al. (2001); Hendry et al. (2007); Tkac (2006); Thomas and Cotter; Becht et al. (2008) was conducted using a positivist research approach.

The use of a positivist approach has implications for the way research is executed. The researcher who adopts a positivist approach is considered an independent observer or, in other words, is independent of the subject matter being investigated. The researcher is thus an external observer and is objective in their investigation. The researcher presents the exact facts and does not indulge in subjective interpretation and analysis of the data in question. Using an objective approach allows for the research to be easily replicated using the same data. The positivist epistemologist stance has limitations in terms of its conception of valid or received knowledge (i.e. science) as to what is perceived to be unproblematic observable 'sense data'. Gill and Johnson (2003) posit that there are specific types of research for which a positivist philosophical position is not suitable; research involving human experiences and attitudes. Research containing a relatively small sample size might be more appropriate for inductive and qualitative research.

4.22 Post-Positivism

Post-positivism emerged largely as a result of criticisms and weaknesses of the positivist research philosophy; some of the elementary tenets of positivism could no longer be entirely defensible (Bronowski, 1956; Popper, 1959). Post-positivists maintain the same set of philosophical beliefs as positivists, however they argue the existence of multiple realities rather than one reality as put forward by positivists (Easterby-Smith et al., 2008).Post-positivists are of the view that reality cannot be known perfectly and that it is constructed by the individuals involved in the research (Blaxter et al., 2006). There are various underlying factors that can influence how reality is constructed such as cultural, gender and religious beliefs. Post-positivism recognizes that a set of complex intricate relationships exists between the behaviour of an individual, socio-cultural issues and external structures.

From the post-positivist philosophical perspective the researcher cannot claim to be independent of the research. In other words, post-positivists accept that the researcher's theories, background, knowledge and values can influence what is observed, differing from the positivist who believes that the researcher is independent of the research. In contrast to positivism, post-positivism does not seek an absolute predictive truth in order to establish generalizations and propound laws, rather the approach is focused on examining the existence of trends or occurrences and its aim is to construct and interpret representation of the lived experience in a social context (Stewart and Floyd 2004). Forbes et al.(1999) explain that post-positivism is primarily concerned with searching for and establishing a 'warranted assertibility,' that is, valid and soundproof evidence of the existence of phenomena (Philips 1990).

Clarke (1998: p.1245) suggests that it is not necessary for 'post-positivism research to exclude qualitative data or truth found outside quantitative methods; acceptance of this is crucial to rejecting the strict dichotomy often drawn between the qualitative and quantitative paradigms'. According to Letourneau and Allen (1999) post-positivist approaches lend credence to the use of both quantitative and qualitative research methods. While objectivity remains fundamental, qualitative techniques are used increasingly to check the validity of findings(Jankowicz, 2005). Thus post-positivism rejects the truth present in methodologies which focus on individual experiences as encompassed by the phenomenological, grounded theory and other interpretive methodologies.

Despite its openness to other methods of inquiry, it can be said that post-positivism suffers from some of the limitations of positivism (Gill and Johnson, 2003). Post-positivism focuses on rendering complex aspects of human beings researchable, seeking causation, prediction and explanation in terms of regularities of life. In addition, that post-positivist research allows for the inclusion of qualitative research methods is also considered its weakness (Parahoo, 1995). The close proximity the researcher has to the research investigation is a main limitation as he or she is subject to researcher bias. The use of qualitative research methods precludes generalisation (Clarke 1998). Qualitative studies often feel chaotic as it is difficult to control their pace, progress and end-points.

4.3 Methodological Choices

In investigating institutional investors' engagement, business and management researchers have adopted objective and subjective methodologies. For instance, the works of Gillan and Stark (2000); Karpoff (2001); Romano (2001) and Thomas and Cotter (2006) have adopted an objective methodology whilst a subjective methodology has been adopted by Southwood (2003); Sparkes and Cowton (2004); Gifford (2010) and Hebb et al. (2010). The choice of methodological position has been dictated by the world view of the researcher, the nature of the research question and the practicalities of the research design. In deciding which approach to adopt, the most important consideration is relevance to institutional investor engagement practice. Institutional investors' engagement concerns investors influencing corporate behaviour, practices and policies and proposing sensible reforms managers of corporations can adopt.

A small number of researchers have applied case study methodology in investigating institutional investors' engagement. Collier (2004) used the case study approach and found that institutional investors can use dialogue to influence corporate behaviour, practices and policies. However her research made use of a qualitative case study approach and focused more on the use of dialogue in influencing corporate behaviour. Gifford (2010) employs a case study approach in examining institutional investors' engagement from a stakeholder perspective. He concludes that institutional investors can influence corporate behaviour based on three attributes: power, legitimacy and urgency and that institutional investors who possess these three attributes tend to be more successful in influencing corporate behaviour, practices and policies than those that do not. Tess et al. (2012), extending the work of Gifford (2010), test the salience of institutional investors' engagement .usinga qualitative case study methodology to examine institutional investors' engagement and the ability of institutional investors to raise the environmental, social and governance standards of a firm.

This research differs from that of Gifford (2010) and Tess et al. (2012) in that their research focuses on the impact of institutional investors' engagement, highlighting that dialogue is one strategy/method of institutional investors' engagement to influence corporate behaviour. However their work fails to show that institutional investors' engagement is evolving. Institutional investors do not rely solely on one method of engagement; when one method fails to influence change in corporate behaviour and practices, institutional investors apply another. Also, Gifford (2010) and Tess et al. (2012) used an intepretivist perspective in their investigations and conversely, in this research the researcher has used an objective research methodology in examining the use of multiple methods in institutional investors' engagement in corporate governance and corporate social responsibility. Lastly, Gifford (2010) and Tess et al. (2012) make use of the stakeholder theoretical framework and perspective in their case study analysis of institutional investors' engagement, while this research uses agency theory.

Case study methodology typically combines various data collection techniques such as surveys, questionnaires, interviews and document and text analysis, and both quantitative data collection and analysis methods (concerned with numbers and measurement) and qualitative data collection and analysis methods (concerned with words and meanings) can be used (Yin, 1994).

The case study literature lacks consensus as to a definition of case study methodology; some researchers deem case study a method, as do writers such as Crotty (1998), Patton (2002) and Stake (2005). Stake (2005) stresses that case study is not a methodology, but a choice of what should be studied, however other writers such as Yin and Gray differ in their opinion. Yin (2003), Creswell (2007) and Gray (2009)) defend case study as a methodology giving the following reason: Case study research in a quantitative approach allows the researcher to investigate a bounded system (a case) or multiple bounded systems (cases) over time, this is normally done through detailed in-depth data collection involving multiple sources of information (e.g. interviews, audiovisual materials, observation and documents and reports) and reports a case description and case-based themes. The researcher agrees with the views of Yin (2003), Creswell (2007) and Gray (2009) in the sense that in the case study approach a longitudinal examination of an event or case can occur and a variety of methods can be applied to the analysis of the data collected.

Creswell (2009) suggests that there are a number of quantitative research strategies that can be used to conduct quantitative research. Gray (2009) suggests that the case study approach is particularly useful for the researcher endeavouring to uncover a relationship between a phenomenon and the context in which it is occurring and requires the collection of multiple sources of data that the researcher must somehow distill. Yin (2003) observes that, despite the fact that the case study approach remains one of the most challenging of all social science endeavours, it has become a common research strategy in sociology, political science (Seawright and Gerring, 2008), psychology (Bryan et al., 2007), and also in business (Gibert et al., 2008) and finance and management (Seuring, 2008). According to Sekeran (2003), case study designs are the simplest involving the description of an on-going event of interest (e.g. organisational change) in relation to a particular outcome. He suggests the following as advantages of case studies:

1. The information yielded can be rich and enlightening and may provide new leads or raise questions that otherwise might never have been asked.
2. The people or organisations involved usually comprise of a fairly circumscribed and captive group allowing the researcher to describe the event in detail.
3. An entire organisation or entity can be investigated in depth and with meticulous attention to detail – this highly focused attention enables the researcher to carefully study events and the order in which they occur and concentrate on identifying the relationships between functions, individuals and entities (Zikumund, 2003).

4.4 When Should Case Studies be Used?

Yin (2003) states that the choice of research strategy is dictated by the type of research question being posed, the extent of control the researcher has over the actual behaviour of events and the degree of focus on contemporary, as opposed to historical, events. Yin (2003) and Gray (2009) emphasise that the case study method is ideal in addressing 'how' or 'why' questions in relation to a contemporary event over which the researcher has no control. They posit that 'what,' 'who' and 'where' questions are better answered by using a survey approach. The case study approach is not dissimilar to the use of unobtrusive measures such as examining document archives and the use of historical evidence – in both instances and cases no attempt is made to manipulate behaviour. But while unobtrusive measures can rely only on the use of existing documentation (historical or contemporary), case studies must focus on collecting up-to-date information. For this reason, data collection may involve the use of not only contemporary documentation but also direct observation and systematic interviewing. The researcher is aware that a significant amount of qualitative research makes use of the case study approach, however its use is not limited to qualitative research, it can also be applied to quantitative research.

A case study approach to research is not without its weaknesses. Remenyi et al. (1998) cite two particular criticisms of the case study approach:

1. As a type of empirical research methodology it has been viewed as less desirable than surveys or experiments, accused of bias and a tendency to use incomplete evidence. However such views ignore that bias can occur in any other research method including experiments and surveys.
2. Case studies are time consuming, expensive and generate too much documentation. Although case study research is frequently expensive, at least in terms of the researcher's time, it is not always necessary for case studies to be large or cause excessive documentation.

4.5 Collection of Data

F&C published quarterly engagement reports over a six-year period (2005-2011) detailing F&C engagement with investee companies over the period. The discussion of engagement activities focused on both successful and unsuccessful cases of engagement with companies in influencing corporate behaviour. The data used in the research analysis is secondary data. Secondary research is used when a research project requires a summary or collection of existing data, as opposed to data collected directly from respondents or 'research subjects' for the express purpose of a project (often called 'empirical' or 'primary research'). According to Stewart (1984) secondary data can simply be defined as the additional analysis of an existing data set with the purpose of addressing a research question that is different from that which the data set was originally collected, and generating novel interpretations and conclusions. A significant amount of research in the business and management is conducted with the use of secondary data (Easterby-Smith et al, 2008). Secondary data can embrace a wide spectrum of empirical forms; they can be generated through documentary analysis, systematic reviews and also from international surveys as well as national census (Cowton, 1998; Long-Sutehall et al, 2010). Some of the notable sources of secondary data include company reports, previous research reports, newspapers, magazines and journal content and government and NGO statistics (Zikmund, 2003; Jankowicz, 2005).

Long-Sutehall et al (2010) posits that the use of secondary data can be applied for the following reasons: the performance of an additional analysis of an original dataset (Heaton 1998); the pursuance of interests different from those of the original analysis (Hinds et al. 1997); the application of a new conceptual focus or new perspective to the original research problem (Heaton, 1998). This latter point was the primary focus of this research. As previously discussed by the researcher, one of the reasons for the use of secondary data set in this research, was the difficulty encountered by the researcher in collecting primary data for the research. When access to primary data became inaccessible, secondary data became a particularly important option for the researcher in executing the research. Cowton (1998) suggests that secondary data is capable of providing some useful material when it becomes impossible to gain access for collecting of primary data.

Secondary data has positive attributes, the most important of which is that it saves the researcher enormous amounts of time and money – the researcher needs only to access library facilities (information contained in hard copy or stored electronically). Many a time, researchers spend an enormous amount of time, energy and resources in gathering primary research data and sometimes, researchers have been unable to complete research papers and projects because of inability to gather and collect primary research data (Cowton, 1998; Quinlan, 2011). Other advantages include: the reduce possibility of bias due to, for example, non-response and recall as well as the size of the sample (Rabonovich and Cheon, 2011).

However, secondary data has limitations; one major drawback is that data collected for another study with different objectives may not be completely relevant to the research problem (Andersen, et al. 2011). Since the data were not collected to answer the specific research questions the researcher had in mind, the researcher does not enjoy the flexibility that would have resulted if he had collected the data through primary research (Soreson et al. 1996). Secondary data can only be worked with as it is, not as the researcher would have wished to have it. The loss of control is considered a serious limitation of secondary research data as the researcher is not able to exercise any control over the creating or making of secondary data (Church, 2001).

4.6 Selection of Case Study Organisation

The choice of engagement practices investments funds was a carefully selected. In choosing an institutional investor to investigate, the researcher carefully examined institutional investors' actively practicing engagement in the UK whose institutional investors' engagement strategies had advanced beyond the traditional approach. The first selection criterion was that the institutional investor should be based in the UK, as most of the re-emergence of institutional investor engagement occurred there. Institutional investors not based in the UK were excluded from the sample in question. There were a total of 14 UK institutional investors, rated top class, who actively practiced engagement. On closer examination, the researcher observed that all 14 institutional investors maintained information on their overall engagement policy statements including, amongst others, selection of engagement themes, guidelines on dealing with investee companies, management of disputes and the resolution of conflicts of interest.

However not all institutional investors publicly disclose their engagement practices, HSBC is one example. Only nine institutional investors reported on engagement issues with companies with which they had engaged (Henderson, CIS, Rathbones, Jupiter, USS, Hermes, Insight Investment, Morley and F&C Investments). The second criterion of selection was one based on the amount of information the institutional investors disclosed in relation to their engagement activities. The investors that had disclosed a substantial amount of information were given a status of high priority and those that had not, low priority. USS, Jupiter and Insight Investment did disclose information on their engagement practices but it lacked the breadth and depth that F&C Investments seemed to provide.

The robust and detailed information disclosed by F&C Investments over a six-year period delivered significantly more than that disclosed by USS, Jupiter and Insight Investment in comparison, allowing for a detailed follow-up of institutional investors' engagement over an extended period of time. This provided insight into the strategies F&C used that yielded results and those that did not. In some instances a considerable amount of time can elapse between the initiation of institutional investors' engagement and any results or outcomes. Most of the engagement reports by USS, Jupiter and Insight Investment were not substantial enough to allow for a detailed analysis of the institutional investors' engagement strategies and to what extent they may have succeeded or failed.

4.7 Content Analysis

Content analysis can be regarded as a research instrument and tool used in a systematic and objective manner to quantify the presence of particular words, phrases and concepts contained within a text or set of texts (Krippendorff, 1980; Lederman, 1991; Saunders et al., 2007). It is a research method used in collecting and organising data and codifying text (or content) of a piece of writing into various groups (or categories) depending on selected criteria (Weber, 1990). The aim of content analysis as a research method is to provide new insight, knowledge and the representation of facts that enable the research to replicate and make valid inferences from the data to the specific context in question (Elo and Kygnas, 2007). This is done with the intention of attaining a broad, condensed depiction of the phenomenon and to analyse the concepts and categories used to describe it.

Content analysis can be a simple procedure that entails the summarising of data or tallying the frequency of an event. It could include more complex measures that involve the analysis of trends or identification of subtle differences in the intensity of the data. According to Bryman and Bell (2007),in content analysis the frequency/themes can emerge from the following: theoretical understanding of the phenomenon being examined, the characteristics of the phenomenon being studied, from local, common-sense constructs and from agreed professional definitions found in the literature. Harwood and Garry (2003) state that in business and management research, content analysis is a useful and effective tool in accessing requisite information without requiring respondents to answer questions in a particular manner orbring to mind past events. Additionally, the use of content analysis allows for large volumes of data and written material to be easily analysed with the assistance of an explicit coding manual, precise categories and comprehensive reliable checks can be executed by skilled research individuals in order to code the material.

Content analysis is not without controversy, with one leading debate querying whether content analysis should be considered a quantitative or qualitative research method - various researchers have expressed their views on this issue. Berelson (1952) argues that content analysis is a quantitative research method as it makes use of objective, systematic and quantifiable procedures in its analysis. Also, Silverman (1993) believes that content analysis should not be used in the discussion in qualitative data analysis, because it is largely a quantitative method.

In the quantitative field, it is suggested that content analysis it is too simplistic and fails to make use of robust statistical techniques and analysis, whilst in the qualitative field content analysis is not considered a sufficiently qualitative method (Morgan, 1993). Earlier research tended to limit the debate on content analysis to its classification as a quantitative versus qualitative research method (Hsieh and Shannon, 2005). Weber (1990) is dismissive of the reference to content analysis as simplistic; he argues that it is possible to obtain simplistic outcomes by virtually any method when analysis skills are deficient. The reality is that a research method is as easy or difficult as the researcher intends it to be (Neundorf, 2002). The researcher agrees with those such as Berelson

(1952) who view content analysis as a largely quantitative method: content analysis is objective, quantitative in nature and allows for simple mathematical procedures to be performed such as the calculation of percentages from the frequency of the variables. In deductive content analysis, the aim is to retest existing data in a new context. The first step in performing deductive content analysis is the coding of the data. Since the researcher is using deductive analysis, the coding of the data has been drawn from an existing framework. An explanation of how the data has been coded is explained in the following section.

4.8 Data Analysis Procedure

Bryman (2007) suggests that in quantitative research, the type of data and size of the sample collected have a significant influence on the type of quantitative analysis that can be performed on the data. Saunders et al. (2007) explain that categorical data refers to data whose value cannot be measured numerically but can be either classified into sets according to the characteristics that identify or describe the variable or placed in a rank order. These are known as descriptive data or nominal data as it is impossible to rank or define the category numerically. These data result from simply counting the number of occurrences in each category of a variable. Although these data are purely descriptive, they can be counted to establish which category appears most frequently and the following values derived: mean, median, mode, median deviation and standard deviation. Categorical data can also be dichotomous and ordinal data. Dichotomous data can be divided into two distinct categories, for example where the variable gender is divided into female or male. Ranked or ordinal data are considered a more precise form of categorical data.

In quantitative analysis, the ability to understand and distinguish between types of data is extremely important when analysing quantitative data (Baumard and Ibert, 2001). Using analysis software it is extremely easy to generate inappropriate statistics from the data which are consequently of little value. The data collected for this research can be classified as categorical data. As part of the process of analysing quantitative data, all data should, with a few exceptions, be recorded using numerical codes (Basit, 2003). In the case of categorical data, the codes are applied with scant consideration, although a coding scheme can be designed to ensure subsequent analysis is much simpler.

To get an in-depth understanding of the report, the researcher read the reports several times. Initial method of analysis focused on the use of content analysis. The number of reports analysed by the researcher on F&C Investment engagement practices were 24 in number. F&C Investment published 1 report every quarter and 4 reports every year. Over the six year period, 24 reports were examined. The total number of engagement incidents examined by the researcher in F&C investment reports was 454. Of the 454 incidents, 225 were corporate governance issues and 229 were corporate social responsibility issues.

To begin the analysis, particular corporate governance and corporate social responsibility issues that had been raised in the literature review, were initially used. For example, excessive executive pay is considered a serious issue investors have raised concern over in the literature review, a keyword search with executive pay was initially used to search the F&C Investment engagement reports. This would enable the researcher to analyse the executive pay issue that investors are concerned about. But this method, while it proved to be helpful initially, tended to be limited in a sense. The researcher encountered a number of difficulties analysing the secondary data using this method. The use of a keyword search tended to limit the corporate governance and corporate social responsibility issues, to issues that have been raised in the literature review. It failed to capture, new or emerging issues that had not been discussed in the literature review. The researcher, found that using key corporate governance and corporate social responsibility word searches would limit the knowledge of engagement issues F&C Investment where interested in, to issues that have been discussed in the literature, consequently new emerging corporate governance and corporate social responsibility issues would be excluded if this method of analysis was taken.

Also, there were times, a keyword search such as executive pay would emerge from the data, when a keyword search was used, but that did not necessarily mean that institutional investors engagement activity or practices was actually occurring in that section of the text that emerged.

Using a keyword search and counting the number of times that a particular word occurred in the researcher's mind did not explore the richness of the institutional investors' engagement data. While the use of a keyword allowed the researcher an overview of the engagement activities, the researcher was unable to delve deeper into the issues. Consequently, the researcher had to apply another method in analysing the data. To do this, the researcher felt that there was a need to adopt a different approach to analysing the data on institutional investors' engagement. The researcher decided to use a more robust approach to explore the particular engagement issue that was of concern to F&C Investment. The analysis of the text was based on three criteria. Each text on F&C Investment engagement had to contain three specific elements, the issue of engagement (corporate governance or corporate social responsibility), the methods of engagement and the specific company in question. The text analysed could range from one sentence to a few paragraphs. The most important thing for the researcher was that the engagement activity was clearly defined, the methods spelled out, the company in question mentioned.

The data on F&C Investment engagement was disaggregated into the following sub-themes that has been listed above as can be seen in Table 5 in the next page. This approach to analysing the data allowed the researcher to examine specific corporate governance issues and corporate social responsibility issues that F&C Investment were concerned about, the method of engagement and the company that was engaged as well. The benefit of this approach is that it broadened the scope of the analysis, as it removed from the researcher's mind, any preconceived notion of what the corporate governance or corporate social responsibility issues were. Any engagement activity in the text and in F&C Investment report that did not have all three elements inclusive in the text (issue of engagement, method of engagement, company in question) were not analysed, as the researcher found that such information were not sufficient enough for a more detailed analysis.

Table 3: Example of Data Coding Used in the Analysis

	2006 1st Quarter F&C Engagement Report	Corporate Governance	Method of Engagement	Companies
1.1	Quality directors are key to effective boards, and F&C values the opportunity to meet with them so as to reach a judgments based on the merits of each individual. We recently met with all four newly-appointed non-executive directors at troubled UK supermarket group William Morrison. Three of the four were little known to institutional investors, coming from major private companies, and the meeting reassured us of the valuable perspectives and skills they bring to the board.	Meetings with newly elected non-executive directors	Face to Face Meeting (Dialogue)	William Morrison
	2008 2nd Quarter F&C Investment Report	**Corporate Social Responsibility**	**Method of Engagement**	**Companies**
1.2	In face-to face meetings with China's mining and oil majors China Shenhua, PetroChina and CNOOC, F&C recommended they assess climate-related risks and publish a climate change strategy. We also met with China Life, and recommended it factor climate change impacts on property and health into insurance risk models, and develop insurance for individuals vulnerable to adverse weather in China, such as rural farmers whose crops were recently affected by snowstorms.	Assessment of Climate change related risk	Face to Face meeting (Dialogue)	Chian Shehua PetroChina CNNOC China Life

The use of this approach in the analysis of the data also created its own set of difficulties. The researcher found that the use of this approach allowed several corporate governance and corporate social responsibility themes to emerge from the data. The researcher found that some themes, were repetitive, some other themes were not repetitive. The researcher had to deal with the issue, of how to categorise corporate governance and corporate social responsibility issues. Since the number of themes that emerged from the data were numerous, the researcher decided it was best to have major themes and sub-themes in the classification.

4.8.1 Stages of Data Categorisation

The first stage involved identifying key corporate governance and corporate social responsibility issues from the literature review. In Table 5, the work of Gillian and Stark (2000); Karpoff (2001); Romano (2001) and Thomas and Cotter (2006) was used in classifying the corporate governance themes. The work of Grave et al. (2001); Monks et al. (2004) and Tkac (2006) was used to classify the corporate social responsibility themes in Table 6. F&C Investments' engagement reports data was transferred to a Microsoft Excel spread sheet to enable the researcher to execute a more robust analysis. The data was transferred with the intention of classifying and quantifying the corporate governance and corporate social responsibility issues into similar categories. The researcher deemed it important to record the number of times a particular corporate governance or corporate social responsibility issue was discussed in F&C engagement reports to enable the researcher to identify some of the key corporate governance and corporate social responsibility issues that were of concern to F&C. For example, in the analysis of executive pay six core themes emerged from the data: clawback, bonus payments, executive pay and performance, voting on executive pay, review of executive pay and independence of remuneration consultants. Bonus payments, executive pay and performance, voting on executive pay and review of executive pay were further classified into sub-themes that can be seen in figure 4. The same approach was taken in the classification of bribery and corruption in figure 5. In the analysis of bribery and corruption, six core themes emerged from the data: enhancing internal control reporting systems, concerns on UK government cordoning of corrupt practices, poor regulatory practices, allegation of corrupt practices, whistle blowing issues and corruption as an investment risks. Allegation of corrupt practices and whistle blowing were further divided into sub-themes.

Table 4: Corporate Governance Issues Identified in the Literature

	Corporate Governance Issues		
1	**Executive Pay** Restrict executive compensation Disclose executive compensation Review executive compensation Require option shares to be held Abolish stock option Implement executive compensation plan	**Board and Committee Independent Issues** Increase board independence Limit directors' term Nomination of directors Directors' compensation Directors' attendance at general meetings	**Issues Related to Repealing Anti-Takeover Devices** Repeal classified board Eliminate poison pill Eliminate golden parachutes Prohibit greenmail payments

Source: Compiled from Gillan and Stark (2000); Karpoff (2001); Romano (2001); Thomas and Cotter (2006).

Table 5: Corporate Social Responsibility Issues Identified in the Literature

	Corporate Social Responsibility Issues		
1	**Political Donation** Disclose political donation Affirm non-partnership Enact shareholder vote on political donation	**Diversity/Non-Discrimination** Board diversity Sexual orientation non-discrimination Domestic partner benefits	**Environmental** Climate change Pollution/recycling Greenhousegases/radiation release

Source: Compiled from Grave et al. (2001); Monks et al. (2004); Tkac (2006)

The second stage involved reading F&C engagement reports several times to identify key corporate governance and corporate social responsibility issues addressed by F&C engagement. The identification of corporate governance issues and corporate responsibility issues was guided by the key corporate governance and corporate social responsibility issues identified in the literature review.

The third stage undertaken by the researcher was the classification of corporate governance and corporate social responsibility issues in the F&C engagement reports. The classification is based on the researcher's understanding from the literature review and an examination of the data in question. For example, in Table 7, in the case of executive pay, seven core issues were identified in the data: voting on executive pay, disclosure of executive pay, bonus payments, executive pay and performance, review of executive pay, independence of executive pay consultants and clawback[9]. Of these seven core issues, three of the issues; bonus payments, voting on executive pay and executive pay and performance were sub-divided into the following: disclosure of executive pay and performance, linking executive pay to CSR performance, restructuring executive pay to meet specific performance criteria and reward exceptional performance with exceptional pay.

Table 6: Classification of Executive Pay

	Executive Pay
1	Voting on executive pay 1) Vote against director fees 2) Encourage shareholders to vote on pay 3) Request shareholders to vote on advisory pay
2	Disclosure of executive pay
3	Bonus payments 1) Abolish retirement bonus payments 2) Payment of retirement bonus 3) Disclosure of bonus payments
4	Executive pay and performance 1) Disclosure of executive pay and performance 2) Linking executive pay to CSR performance 3) Restructuring executive pay to meet specific performance criteria 4) Reward exceptional performance with exceptional pay
5	Review of executive pay
6	Independence of executive pay consultants
7	Clawback

Adopted from: Gillan and Stark (2000); Karpoff (2001); Romano (2001); Thomas and Cotter (2006).

[9] Clawback is a mechanism used to recover executives' income and earnings when their performance falls short of specific benchmarks (see Peter, 1993).

The researcher used the same approach to classify the corporate social responsibility issues. In the case of labour standard practices in Table 8, five core issues were identified in the data: disclosure of labour standard practises, use of child labour, implementation of labour standard codes, improvement of labour standard codes and provision of quantitative indicators for labour standard practices.

Table 7: Classification of Labour Standard Practices

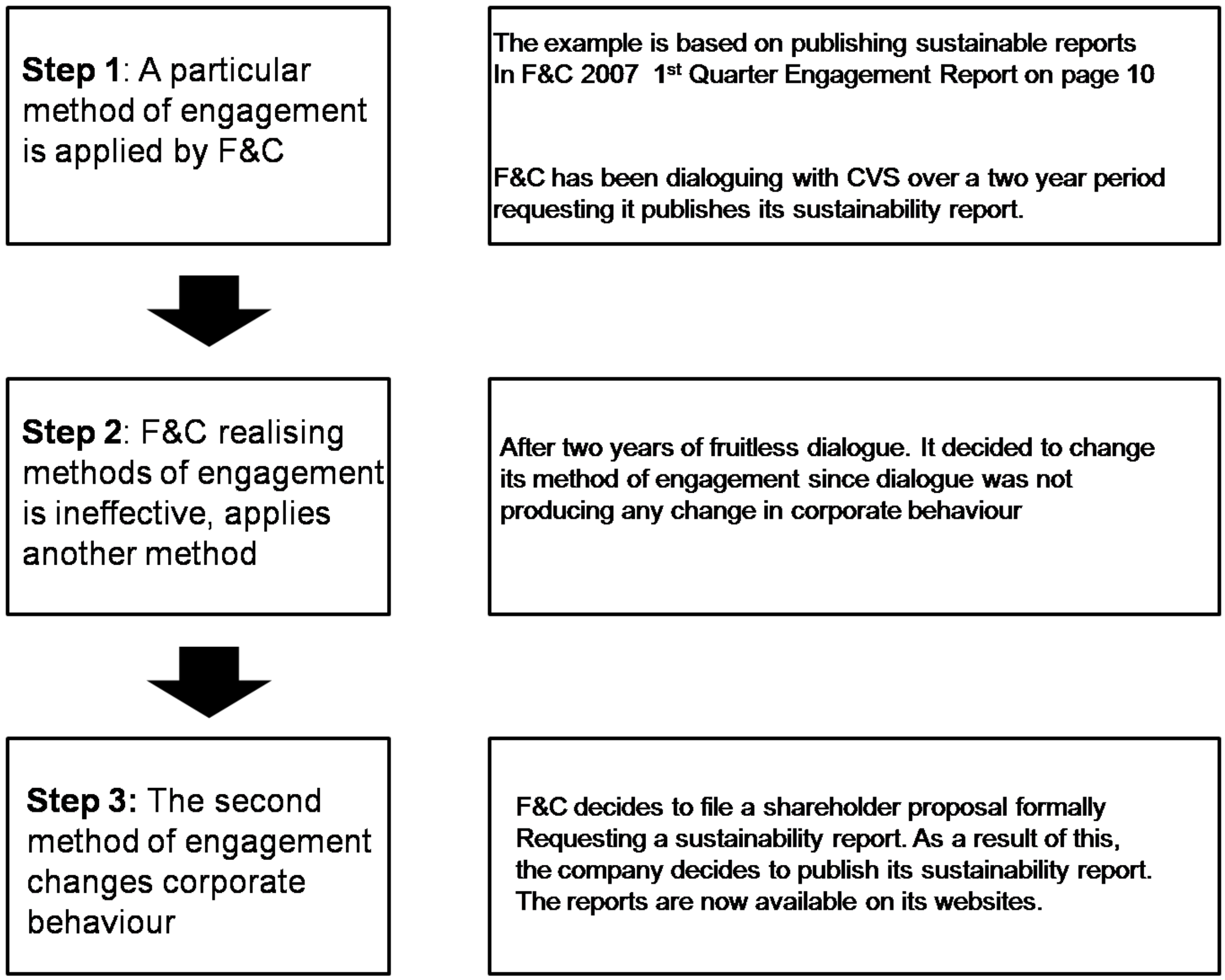
	Labour Standard Practices
1	Disclosure of labour standard practices
2	Use of child labour
3	Implementation of labour standard codes
4	Improvement of labour standard practices 1. Inadequate accommodation for migrant workers 2. Poor factory working conditions 3. Poor employment practice 4. Poor supply chain practice 5. Unfair terms of work 6. Aggressive anti-union labour practices

Adopted from: Grave et al. (2001); Monks et al. (2004); Tkac (2006).

4.9 Classifying the Use of Multiple Methods in Institutional Investors' Engagement

The strategies used in F&C engagement to influence corporate behaviour have advanced in two ways. The first is individual or firm-specific engagement. To determine at what point a new strategy is applied, the researcher decided that it was important to establish a time frame for the efficacy of a particular engagement strategy. A time frame of one year was prescribed to determine whether a particular strategy was effective in influencing corporate behaviour. When the one-year period elapsed and another engagement strategy was applied by F&C that generated the kind of results they had been expecting, the research then classified that as the use of multiple methods in engagement. The use of multiple methods in engagement by F&C Investments can be seen in Figure 4:

Figure 4: Use of Multiple Methods in Engagement by F&C Investments



The following example is presented to consolidate the point the researcher is making. In its 2007 first quarter engagement report, F&C acknowledged it had been dialoguing with an American company, CVS, over a two-year period. F&C had requested CVS to publish a sustainability report. After two years of fruitless dialogue, F&C decided to change its approach to engagement since dialogue was not yielding the desired result. It filed a shareholder proposal formally requesting a sustainable report. CVS publishes sustainable reports on its websites hence the researcher has been able to confirm their publication. The use of shareholder resolutions to engage CVS influenced their non-disclosure policy and practices.

4.10 Limitations of the Research Design

As with any research of this nature, this research has limitations therefore the results should be treated with some caution. The first of many limitations is that of the selection bias. Selection bias can be said to occur in experimental or survey research when the data selected is not drawn from a sufficiently random sample to draw a general conclusion. When selection bias is not explained in the research, there is a tendency by researchers to claim that the results are widely applicable. Institutional investors' engagement is not practiced extensively in the UK, only a few investors are at the forefront and the organisation selected for this research is one that practices institutional investor engagement.

Secondly, although the selection of one organisation, examined over a long time period, has benefits in that the trends, changes and the use of multiple methods in institutional investors' engagement can be examined, it does have limitations since it may fail to present a holistic picture of UK institutional investors' engagement practices. A small sample size could produce misleading results. The use of a small number of cases could result in the omission of important insights and the selection of such cases renders the research not truly representative, consequently the findings cannot be generalised. However, from the outset, the goal of this research has been not to generalise but to examine how institutional investors' engagement practices are evolving. A large sample size would give a detailed and more robust picture of engagement practices in the UK and allow for a general conclusion to be drawn from the findings.

Thirdly, institutional investors' engagement reports have some limitations as they report specific engagement activities. Not every engagement activity in which F&C Investments participated was detailed in the reports. The reports are published on a quarterly basis and there is a tendency for certain engagement activities not to be included. The omission of such engagement activities would also have some influence on the findings, the analysis of the data and the outcome. In some instances, though these were few, a particular engagement activity initiated in one report was not discussed in successive reports, therefore the researcher was unable to perceive the eventual outcome.

Finally, the researcher is aware of the implication of the use of categorical data in the research analysis. The use of categorical data limits the application of a wider variety of statistical tools and techniques in the analysis. Quantifiable data on the other hand are those data whose values are measured in numerical quantities and are therefore more precise than categorical data. Quantifiable data can each be assigned a data value position on the numerical scale and the data can be analysed using a far wider range of statistics. Further, the use of secondary data does present another limitation; the analysis would have been more robust had the use of secondary data been combined with questionnaires or interviews. The use of questionnaires and interviews would enable a more robust analysis and ensure that follow-up questions were answered, especially when secondary data fails to provide the requisite information. Efforts made by the researcher in requesting an interview with F&C investments failed to yield any meaningful result. As such, this research would have benefited from a deeper exploration of the use of multiple methods in engagement.

4.11 Conclusion

This chapter has examined the research philosophy, methodology and methods that the researcher has considered in executing the research. The researcher had adopted a post positivist philosophical stand because he believes that research can be best produced when objective ontological position is taken. The researcher has presented his case for conducting the research with a post positivist perspective using scientific principles and methods. It is his conviction that it is possible to be objective in scientific inquiry, that the social world can be observed in an objective manner.

The adoption of a case study methodology and the selection of the organisation is explained. The analysis of the research is discussed and the classifications of corporate governance and corporate social responsibility issues are explained. The classifications of the corporate governance and corporate governance issues were based on existing frameworks examined in the literature review that was extensively discussed in chapter two.

The overall theme that emerges from the analysis of institutional investors' engagement is the use of multiple methods by investors in engaging in corporate governance or corporate social responsibility issues. Institutional investors have gone beyond the use of a one method or a static approach to engagement. Institutional investors' engagement is becoming more dynamic and methodical in its approach. If a particular method fails to yield an intended result, institutional investors are learning to apply another method in engagement.

The next chapter provides a brief overview of F&C Investments. It gives a detailed description of the organisation, its structure and the size of its assets. The engagement philosophy of F&C is explained and the purpose of its engagement activities is described in detail.

Chapter 5: An Overview of F&C Investments

5.1 Introduction

This chapter aims to provide a detailed elaboration of this study's primary institutional investor case study; F&C Investments. First, a brief outline of F&C's major attributes (historical development, organisational structure, assets under management, other investment holdings etc) is provided. This is followed by a detailed account of F&C's extensive involvement in shareholder activism/engagement initiatives. Of particular focus is the integrating of corporate governance-related and CSR-related corporate engagement policies and practices by F&C investment in engagement. And also, the use of multiple methods in engagement by F&C.To simplify, this study will scrutinise the decisions made by F&C's fund managers to effectively manage the risks and opportunities associated with significant governance, social, ethical and environmental issues. This chapter is based on information obtained from F&C Investments' website unless referenced otherwise. Although F&C Investments has contributed immensely to improving and influencing corporate governance and corporate social responsibility practices in the UK, very little academic research exists around its engagement in corporate governance and corporate social responsibility practices.

5.2 Brief History of F&C Investments

F&C Investments began with the inauguration of the Foreign & Colonial Investments Trust in 1895 and was the first investment trust in the UK (*The Financial Times*, 2012). The company was the world's first publicly-listed pooled of investment vehicle and a leading pioneer in the fund management industry. Its aspiration was to ensure that investors could take advantage of investment opportunities that would diminish the risk of investing across the globe in countries such as Chile, Brazil and the United States (1868); Germany, Australia, India, France, South Africa and Japan (1883); and China (1886) and Hong Kong (1934).

In 1999, the company's international expansion involved entering into a joint venture with the Guoco Group to form FIS Asia, with its headquarters in Hong Kong. The purpose of the venture was to develop retail and institutional asset business for the Asian region. In 2001 the company formed a strategic alliance with State Street Global Advisors. After purchasing the asset management business of Royal & Sun Alliance, the company changed its name to ISIS Asset Management in 2002.

In 2004, ISIS completed the management buyout of Market & Opinion Research International (MORI), an independent market research organisation. In the same year, the company merged with ISIS Asset Management and formed what is now known as F&C Investments. In 2005 F&C Investments entered into the private equity fund segment with the acquisition of Martin Currie Investment Management's private equity funds business unit. In 2007F&C Investments launched four investment funds under the asset manager Richard Philbin with asset mixes tailored to specific risk/return profiles. In 2008, the company merged with REIT Asset Management, an international property asset manager and named the resulting company F&C REIT.

Today F&C Investments can be best described as a diversified independent investment management company specialising in the provision of asset management services which include a range of investment trusts and venture capitalist trusts. F&C asset management offers a range of products and services through two channels; its investment management and property asset management arms. The F&C management group invests across a wide variety of major asset classes as well as a range of specialist expertise including commercial property, private equity funds and hedge funds. The company’s vision has been to consistently focus on creating value for its customers by delivering superior performance in all aspects of the business. The company focuses exclusively on asset management and is renowned for its promotion of best practice corporate governance and socially responsible investments.

F&C currently manages approximately £100 billion of assets for a diverse range of retail investors, institutional clients and insurance companies, representing more than three million end investors (Russell, 2008). Insurance funds constitute the majority of F&C Investments' clientele, accounting for an estimated 60% of funds managed by F&C. Institutional funds account for approximately 30% of the funds. Investment trusts and UK retail mutual funds collectively account for a further 10%. Assets managed under F&C can be classified into the following categories: fixed interests, equities, property, money markets and alternative investments. Most of F&C's assets are allocated as fixed interests and equities accounting for approximately 80% of investments (F&C Investments Annual Report, 2010) (see Tables 9 and 10 below).

Table 8: Asset under Management of F&C by Client Category

	30th June 2009 £bn	31st March 2009 £bn	31st December 2008 £bn
Insurance Funds	62.2	59.2	59.0
Institutional Funds	29.1	28.4	29.5
Sub-Advisory	3.3	4.6	5.0
Investment Trusts	5.3	4.7	5.1
UK Retail (Mutual Funds)	2.5	2.1	2.3
International Wholesale (Mutual Funds)	1.3	1.1	1.1
	103.7	100.1	102

Source: http://www.fandc.com(accessed: 28th of July, 2012)

Table 9: Asset under Management of F&C by Asset Category

	30th June 2009 £bn	31st March 2009 £bn	31st December 2008 £bn
Fixed Interest	62.2	61.8	62.6
Equities	24.1	21.2	25.2
Property	9.2	8.9	8.1
Other Alternative Investments	1.7	2.2	2.6
Money Market	6.5	6.0	102.0
Total	103.7	100.1	102.0

Source: http://www.fandc.com(accessed: 28th of July, 2012)

It is F&C investment philosophy that financial markets are largely inefficient, that not all information is captured in the share prices and market forces can drive asset prices above or below their true value. Thus, in an inefficient market, some securities will be overpriced and others underpriced. Inefficient markets present investors with opportunities to exploit share prices and hidden value within companies. Through application of its specialist investment knowledge and skills, F&C has developed the ability to exploit such inefficiencies. Although F&C Investments operates in the UK, it enjoys significant patronage from institutional investors in France, Ireland, Germany, the US, the Netherlands and Portugal. The group has no single investment strategy/approach that is imposed across the business, but have a multi-specialist investment business model. The F&C Investments philosophy is based on five key tenets:

- It is the belief that individual fund managers are in the best position to manage the funds and have been given full responsibility to do so. Individual fund managers are employed and given the support and resources they need. Accountability and performance of funds lie in the hands of the fund managers and fund managers' pay is linked to performance of their fund, rather than the volume of their assets.

- Managers are also given the need support and advice to run the funds effectively: Fund managers are encouraged to work in robust teams and investment decisions are made on the basis of strategic thinking and risk modelling, not on the basis of personal intuition.
- Managers in F&C are given some flexibility in how they manage and run their funds: Fund managers are not constrained to apply any particular investment style such as growth and value, instead the investment style provides room for flexibility allowing fund managers to adapt to continually changing markets conditions.
- Managers in F&C are allowed to work as part in small teams: Investment professionals are allowed to work as part of a small, highly-focused team. This ensures that they focus on specific products and affords a rare degree of control over the investment process.
- Acting responsibly: Acting responsibly calls for engagement with the company in which they invest, aiming to enhance and protect long-term shareholder value. The approach adopted is constructive dialogue with companies highlighting potential risks that emerge from poor corporate governance and social responsibility practices.

Acting responsibly is a key tenet that is consistent with the focus of this research; UK institutional investors such as F&C Investments have been encouraged to get involved with companies in which they have vested interests (Holland, 1998; Short and Keasy, 2005). Institutional investors should advance from being passive investors and become actively involved by influencing poor corporate governance and corporate social responsibility practices (Monks, 1994; Hendry et al., 2007). Institutional investors' involvement in corporate governance and corporate social responsibility enhances the long-term value of the corporation (Gifford, 2010; Hebb et al., 2012).

Acting responsibly is considered an integral part of F&C's investment philosophy. Its engagement practices in corporate governance and corporate social responsibility are geared towards active and responsible involvement with investee companies. F&C Investments is an institutional investor who understands that it is not enough to invest in companies as a passive investor. It is important for investors to act responsibly by taking an active role in encouraging corporate governance and corporate social responsibility practices that can add value to their investee companies.

5.3 F&C Investments' Engagement in Corporate Governance and Corporate Social Responsibility Issues

Of considerable importance to F&C Investments is the need to achieve best practice in corporate governance and corporate social responsibility a dynamic process between the board, management and shareholders (Bow, 2010). F&C Investments is of the opinion that prudent management of corporate governance and corporate social responsibility issues is fundamental in creating shareholder value for investors (Skypala, 2010). The aim of F&C's engagement is to be persuasive and pragmatic in order to achieve change that enhances the bottom line, rather than the alternative of imposing prescriptive demands on companies in which they invest (Russell, 2008). F&C uses its leverage as one of Europe's largest investors to support the implementation of good environmental, social and governance practices, where this can boost returns to investors (Russell, 2008). This is achieved through the use of sustained dialogue with companies allowing for two-way communication that ensures both parties discuss the issues and generate meaningful solutions and better methods to effectively manage risks and negative impacts on the environment and the wider society.

A particular concern for F&C investment is the need to effectively manage corporate governance and corporate social responsibility issues as it is consider an important component of good governance practices (Skypala, 2010). Companies that ignore such risks may suffer serious damage to their reputation and brand value, as well as litigation and operational risks. Creating a governance culture of transparency and accountability that exceeds compliance with codes and legislation is key to addressing effectively these aspects of performance. Renowned scandals illustrate the importance of companies' alertness to the business risks inherent in a broad range of issues such as fraud, bribery and corruption, insider trading, climate change, human rights, labour standards, including those in supply chains, and the health impacts of products. Three major elements comprise the core of F&C's responsible investment practices: dialogue, voting and collaborative engagement.

5.3.1 Dialogue

The purpose of F&C Investments dialogue with companies is to engage with the companies in which it invests aiming to enhance and protect long-term shareholder value. Its approach is constructive dialogue with companies. Engagement by F&C tends to be proactive; acting before corporate governance and corporate social responsibility issues deteriorate to begin engagement. It tends to anticipate environmental, social and governance issues that may threaten the continuity of the corporations in which they have vested interest. When such issues are identified F&C acts, informing investee companies through dialogue, the organisation of workshops and distribution of relevant research documentation on the issues in question. The use of dialogue as a tool to influence corporate behaviour, practices and policies has been extensively examined in the extant literature review (Sparkes and Cowton, 2004; Solomon, 2010).

F&C Investments encourages companies to engage in the process of shaping and meeting evolving standards of best practice. F&C Investments strives to approach each company's case on its merits and in so doing relies on staff expertise, discretion and dialogue with companies. For this reason, F&C Investments encourages companies to provide information unique to the company on particular governance practices, directors and challenges. F&C Investments believes that proper management of corporate governance and corporate social responsibility issues which a business faces can enhance corporate behaviour and practices. F&C, through its Responsible Engagement Overlay Service, uses its influence as a major asset manager to persuade companies in which they have vested interests to adopt better investment in environmental, social and governance risks and opportunities.

5.3.2 Voting

Voting is considered a mechanism that allows shareholders and investors to express their views on particular corporate governance and corporate social responsibility issues which affect the firms in which they have vested interests (Southwood, 2003; Tkac, 2006). In this regard, F&C states that voters should be well informed and that, as investors, they must make use of their votes responsibly and considerately taking into account their knowledge of the companies and the markets in which they operate and also good corporate governance practice and internationally accepted standards. Their approach to voting is more proactive than the use of the ‘tick box’ mentality, paying due consideration to the explanations offered by companies for deviation from international standards and good practice. F&C maintains that there is a close linkage between engagement and voting: engagement tends to have more leverage, while voting tends to have greater impact when associated with detailed communication of concerns. As part of its commitment to good corporate governance and corporate social responsibility practices F&C Investments publishes its voting positions and records. For instance, F&C has recently escalated its vote against pay packages in order to crackdown on excessive executive pay including against pay plans at Morgan Stanley, Citigroup, Goldman Sachs, HSBC and J.P. Morgan Chase (Brenton, 2012).

5.3.3 Collaboration

Stakeholder theory views collaborative engagement as a means to increase the power and legitimacy of shareholders’ and investors’ demands (Solomon, 2010). Collaboration enables investors to pool resources and co-ordinate their engagement strategies and methods (Black, 1998). In collaborative engagement, a large proportion of shares are held by institutional investors enabling them to wield enormous influence, increasing their chances of influencing corporate behaviour, practices and policies (O’Rourke, 2003). F&C Investments prefers one-to-one engagement with companies, however it is often more effective for several investors to collaborate; pooling resources and coordinating their approach to address particular corporate governance or corporate social responsibility issues (Becht et al., 2007). There are particular corporate social responsibility issues such as Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS), biodiversity and climate change that cannot be convincingly addressed by institutional investors engaging with individual companies. A collective approach is considered more appropriate and companies are more likely to heed investors when it is evident that they convey a true representation of a broad range of views (Sullivan and Mackenzie, 2006).

5.4 Use of Multiple Methods in Engagement by F&C Investments'

F&C Investments is considered a market leader in corporate governance and corporate social responsibility and has won several distinguished financial industry awards for its contribution to improving shareholder engagement in corporate governance and corporate social responsibility practices (Bow, 2010). Other notable awards won by F&C for its corporate governance and corporate social responsibility practices include:

- The Gold Standard Award for best fund management for four consecutive years (2007, 2008, 2009, 2010).
- Liability Driven Investment Manager Award 2012.
- The Investment Trust Award F&C Global Small Companies for 2012.
- Investment Life and Pensions Moneyfacts Awards for Best Investment Trust Provider 2011.
- Best Climate Change Fund for 2011.
- European Socially Responsible Programme of the Year Award 2009.
- Top Sustainable Fund Manager 2007.
- Responsible Investment Award 2005.

In addition to numerous awards, F&C Investments also provides shareholder engagement programmes and services for 20 clients, most notably Dutch pension funds (PGGM),BayerischeVersorgungskammer, the largest German Public Pension Fund (Walker, 2011) and the National Employment Savings Trust which has appointed F&C Investments to manage its responsible investment portfolio (Brooksbank, 2012).F&C Investments' philosophy is integral to its responsible engagement practices. F&C Investments' approach to institutional investors' engagement is the most extensive when compared to other mainstream pension funds and financial institutions in the UK. Its commitment to corporate governance and corporate social responsibility issues constitutes its identity and ensures its distinctiveness as an organisation in the way it resolves differences with its investee companies. It strongly maintains that institutional investors' engagement can provide the tools to achieve influence in corporate behaviour, practices and policies. F&C Investments seeks to deliver strong investment performance through active management.

The approach used by F&C in sustainable and responsible investments differs from the approaches applied by traditional ethical investors who make use of screening and 'best in class' techniques (Solomon, 2010). The use of screening and the best in class approach allows ethical investors to exit companies who fail to meet their ethical standards. In F&C Investments exiting is not an option, F&C deliberately engages with investee companies to change corporate behaviour, practices and policies. This approach does not interfere with fund managers' selection or construction of their portfolio. The sole objective is to influence change in poor corporate governance and corporate social responsibility practices. F&C uses its large share ownership and that of its clients to encourage investee companies to adopt corporate governance and corporate social responsibility practices that add long-term value to the company.

There is a wealth of information on its engagement practices in corporate governance and corporate social responsibility on F&C website. The breadth and depth of this information afforded the researcher a holistic view of F&C's engagement practices. The existing literature on institutional investors' engagement has been static and research has primarily focused on current corporate governance and corporate social responsibility issues, largely as a result of the lack of available data on institutional investors' engagement. Some engagement strategies such as dialogue and negotiation occur 'behind the scenes' and researchers are not privy to such information.

The availability of this wealth of information provided by F&C has enabled the researcher to examine the ways in which F&C's engagement practices have changed overtime, which is not the case with many other institutional investors who publish ad hoc reports on their engagement practices impeding the execution of rigorous and extensive research and analysis. During 2005 to 2011, F&C Investments consistently published quarterly reports of its engagement activity. This consistency and reporting of its engagement has enabled the researcher to capture the long-term dynamics ofthe use of multiple methods in its responsible engagement practices.

In addition to engagement reports, F&C Investments also makes publicly available numerous research publications containing detailed reporting on, and outcomes of, their engagement strategies. No other UK institutional investors have consistently published comprehensive and detailed information over a six-year period. The available data allowed the researcher to follow the engagement activity of a specific company over a period of time to ascertain the strategies used to influence corporate behaviour; those which were effective and those which were not.

5.5 Conclusion

This chapter provides an in-depth explanation of F&C Investments as an institutional investor. In chapter one, a brief discussion of F&C investments was given. The selection of F&C as a case study to examine is explained and justified. Firstly, F&C appears to have a significant amount of data on its engagement practices over a long period of time that enabled the researcher examine engagement practices in detail. Its transparency, through the quarterly publication of numerous engagement reports for more than six years, has been pivotal in enabling the researcher to examine the use of multiple methods in its engagement practices. Institutional investors' engagement must occur over a considerable period of time to make possible an assessment of the efficacy of a particular strategy. The wealth of information F&C Investments has consistently published over the years made possible the study of the dynamic nature of institutional investors' engagement. This is the first analysis of institutional investors' engagement undertaken with a longitudinal data set.

Secondly, it is also regarded as a market leader in the field of responsible investments and has won many awards for enhancing responsible engagement practices in corporate governance and corporate social responsibility. The most notable awards include: Responsible Investment of the Year Award 2005, Top Sustainable Fund Manager 2007, European Socially Responsible Programme of the Year Award 2009, Gold Standard Award for Best Fund Management 2010, Investment Life and PensionsMoneyfacts Award for Best Investment Trust Provider 2011.

This chapter goes into more specific details on F&C engagement practices. It explains F&C Investments applies a variety of methods and strategies to influence corporate governance and corporate social responsibility issues: dialogue, voting and collaborative engagement are considered essential elements of its engagement strategy. The current stream of research on institutional investors' engagement has focused more on capturing static and specific engagement incidents. This is understandable as it is difficult to gain access to information on investors' engagement due to the private nature of engagement practices and the decision of investors to keep details of their engagement activities hidden. Consequently, it has been largely unfeasible to examine the use of multiple methods in institutional investors' engagement practices since institutional investors do not disclose data on engagement activities. In the case of F&C Investments there is a lack of existing academic literature on its engagement practices and procuring information on its engagement activity from other sources has been quite challenging. The *Financial Times* and other magazines have proved valuable, relevant and insightful, however the researcher found the information to be insufficient and would have greatly appreciated more information, from various sources. Insufficient in the sense that, the discussion on F&C engagement practices tended not to be detailed and specific with regards to outcomes of engagement activities.

Chapter 6: Analysis and Discussion of Findings

6.1 Introduction

This chapter presents the study's key empirical findings relating to the many proactive engagement initiatives undertaken by F&C Investments. These are primarily derived from a systematic examination of highly-detailed periodic reports published by F&C over a six-year period (2005 - 2011).In addition, a longitudinal analysis of the of its corporate governance and CSR activism over a six-year period is executed. The analysis' focus is if and how F&C tailors and/or changes its engagement strategies whenever an adopted initiative is deemed to be inadequate in terms of effectiveness. In so doing, the study would improve current academic understanding of:

(i) which of the many institutional investors' engagement strategies/approaches are generally more effective (considering also the nature of issues being dealt with),

(ii) whether or not alternative strategies are subsequently adopted when initial strategies do not achieve their intended outcomes, and

(iii) typologies indicative of the purported use of multiple methods in engagement based on an examination of case studies of F&C Investments' engagement practices.

As mentioned in earlier chapters, the contributions above are distinctive, as past empirical studies have simply considered engagement strategies as static, one-stage processes for each issue in which an institutional investor is interested or when focusing on a particular corporate incident (e.g. instances of corporate fraud).

6.2 F&C Investments' Engagement in Corporate Governance Issues

The total number of incidents of institutional investors' engagement in corporate governance issues undertaken by F&C Investments over a six-year period (2005 -2010) is listed below. The table below is an aggregation of all the 225 instances when engagement on corporate governance issues by F&C took place over the five year period. Like I previously mentioned, engagement was analysed on the basis of three criteria, the issues of engagement must be mentioned, the method of engagement used and company F&C engaged must be specified. Of the 225 instances when engagement took place, a total of 20 corporate governance issues emerged from the data as can be seen in Table 10.

Table 10: F&C Investments' Engagement in Corporate Governance Issues

		No of Times Incidents Discussed	Percentage
1	Executive remuneration	61	27.1
2	Bribery and corruption	31	13.7
3	Pre-emptive rights	1	0.4
4	Poor governance practice	6	2.6
5	Restructuring of the board and board performance	89	39.5
6	Concerns regarding issuance of new capital	2	0.8
7	Illegal transfer pricing	1	0.4
8	Transparency	3	1.3
9	Risk oversight management	3	1.3
10	Voting issues	7	3.1
11	Improvement in governance practices	2	0.8
12	Encourage shareholders to vote	4	1.7
13	Concerns regarding financial restatement of accounts	2	0.8
14	Improve production practice	1	0.4
15	Concerns regarding management and governance	1	0.4
16	Shareholder approval	2	0.8
17	Approval of anti-takeover	1	0.4
18	Shareholder blocking	2	0.8
19	Poison pill	4	1.7
20	Shareholder repurchase scheme	2	0.8
		225	**100**

Some of the corporate governance issues that emerged from F&C engagement report include: executive remuneration, bribery and corruption, pre-emptive rights, poor governance, restructuring of the board and board performance, concerns regarding issuance of new capital, illegal transfer pricing, transparency, risk oversight management, voting issues, improvement in governance practices, encouraging shareholders to vote, improve production practice, encouraging shareholders to vote, concerns regarding financial statements of accounts, shareholder approval, approval of anti-takeover, shareholder blocking, poison pill, and shareholder repurchase scheme. The number of times these incidents were discussed in the engagement report has been listed in the third column and the fourth column shows the percentage value of the corporate governance incidents.

The table clearly shows that three particular issues accounted for over 70% of F&C Investments' engagement in corporate governance issues: executive remuneration, bribery and corruption, restructuring of the board and board performance. These three core issues seemed to be the main focus of F&C engagement activity. The focus on executive remuneration and restructuring of the board and board performance is consistent with the findings in the literature review, the works of (Black 1992; Romano 2001, Ferrani et al., 2003; Monks et al, 2004; Dong and Ozkan, 2008).

However there is an emergence of some very interesting findings, one of the more significance is the increasing focus on improving governance practice, encouraging shareholders to participate more in voting on corporate governance issues, risk management oversight, transparency and bribery and corruption. These are aspects of corporate governance that are not currently receiving significant attention (Gifford 2010; Tess et al, 2010). There is some indication to suggest that corporate governance is broadening in scope to include other aspects of corporate governance that have been largely ignored, that have previously been considered unimportant and of no significant import.

The focus on risk management oversight and encouraging shareholder to participate in the governance process are normally issues raised by regulatory bodies or statutory requirements and principles that the corporate governance codes such as the Stewardship codes (2010) require of investors.

The increasing focus on the importance of risk management cannot be unconnected with the global financial crisis in 2008 that has significantly raised the importance of good risk management practices in corporate governance. Poor risk management practice as revealed by the financial crisis is capable of causing a significant financial meltdown of global proportions. This is consistent with the work of Solomon (2010) who has posits that corporate governance is broadening its scope to include issues such as risk management and ethical aspect of governance such as bribery and corruption.

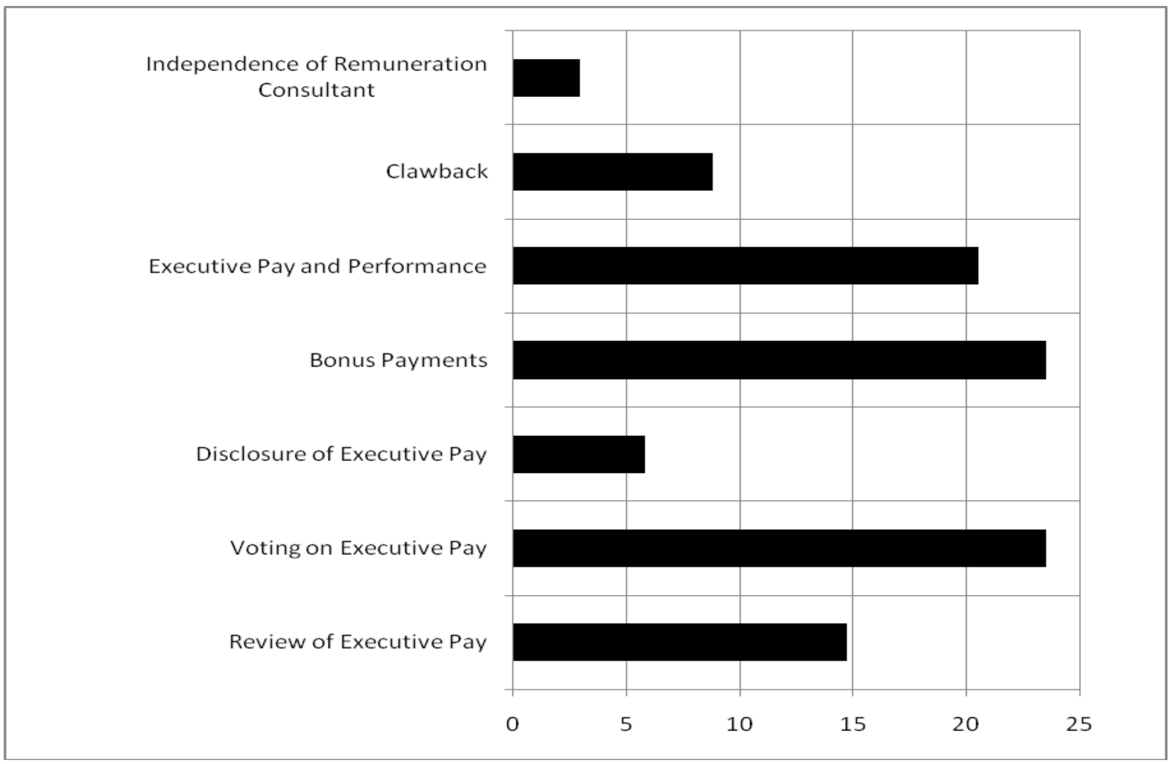
The finding of this research does reveal that investors are beginning to take ethical aspect of corporate governance more seriously. Bribery and corruption, for instance, is an aspect of corporate governance that has not been given significant attention, the literature on corporate governance appears to ignore the fact that corruption can significantly damage and negatively impact the performance of any company. Significant attention has been paid by F&C to strengthen whistle blowing and internal mechanisms, this has been done with the intention nipping the issue of bribery and corruption in the bud and not allowing it to fester so as to cause significant damage to the company in question. The collapse of multinational companies such as Enron, WorldCom and Parmalat largely as a result of unethical practices has brought to the fore, the likely consequences that may occur if unethical practice of bribery and corruption are left largely unchecked or ignored.

The next section will begin by examining the most frequently occurring corporate governance themes. This will provide the reader with a better understanding of the issues involved. Disaggregating the corporate governance themes into sub-themes will also allow the reader a better perception of the governance issues addressed by F&C Investments.

6.2.1 Executive Remuneration

Executive remuneration can be considered an important corporate governance issue raised by F&C Investments. F&C Investments were concerned about the following issues (listed in Figure 5 below): review on executive pay, voting on executive pay, disclosure on executive pay, bonus payments, executive pay and performance, clawback and independence of remuneration consultants. An estimated 60% of F&C Investments' concerns were focused on three core issues: bonus payments, executive pay and performance and voting on executive pay.

Figure 5: Percentage Estimates of Executive Remuneration Issues (2005 -2011)

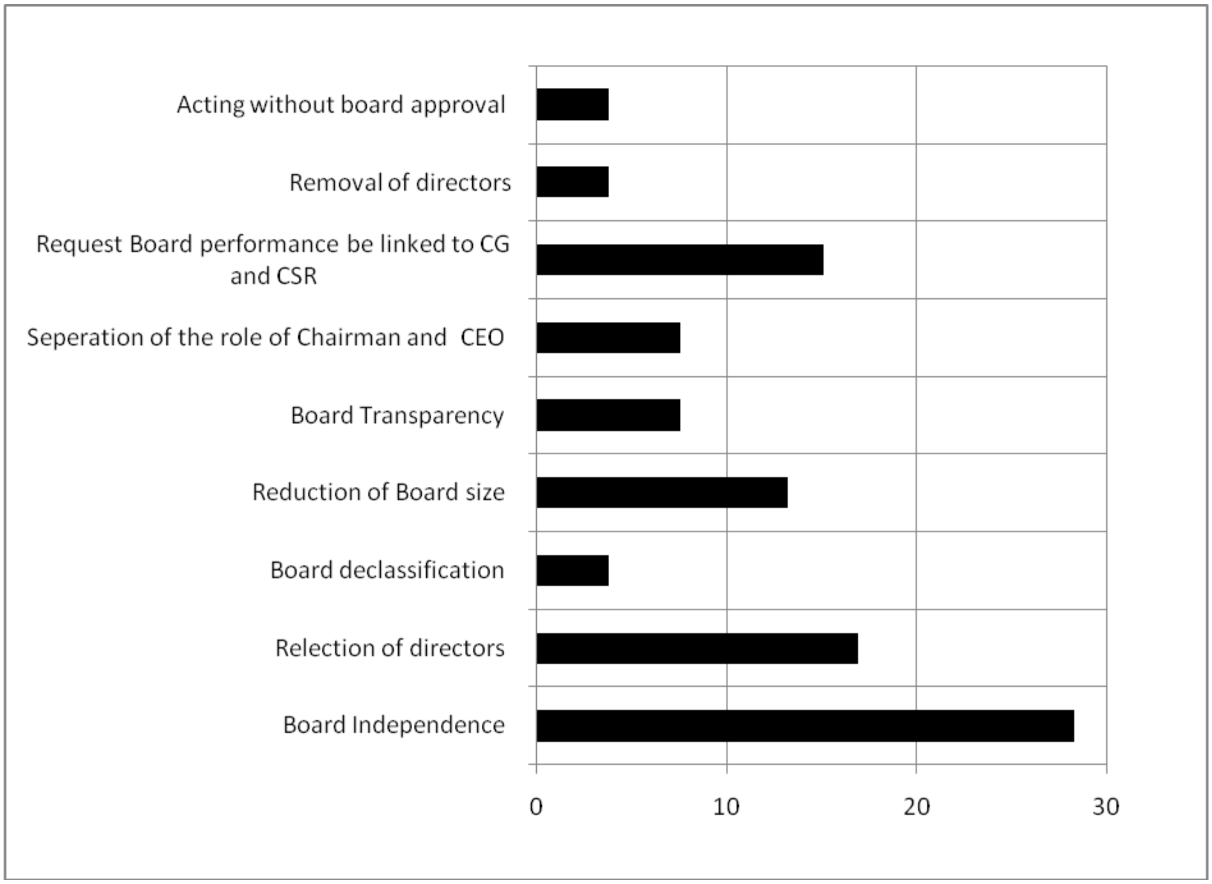


The bonus payments concern could further be sub-divided into the following issues: abolishing of retirement pay for board executives, payment of retirement pay to board executives and disclosure of bonus payments. Executive pay in relation to performance was a major corporate governance issue which F&C Investments tended to address. Executive pay and performance issues could be further divided into sub-themes that include: restructuring of executive pay to meet certain performance criteria, disclosure of executive pay, rewarding exceptional performance with exceptional pay and linking executive pay to performance in corporate social responsibility issues such as health and safety. Voting on executive pay was an issue which F&C Investments repeatedly raised; the core voting on executive pay concerns can be categorised into three sub-themes: encouraging shareholders to get advisory votes on pay, encouraging shareholders to vote on executive pay-related issues and voting for and against directors' fees.

6.2.2 Restructuring of the Board

The board continues to be a resonating theme in the focus of F&C Investments; issues concerning the board have continued to be relevant in today's business organisation. In Figure 6 below, the core corporate governance issues that have emerged from restructuring the board include acting without board approval, removal of board of directors, request for board performance to be linked to corporate governance and corporate social responsibility practices, separation of the roles of chairman and chief executive officer, board transparency, reduction of board size, Board declassification, re-election of board of directors and board independence. Board independence, re-election of directors, the request for board performance to be linked to corporate governance and corporate social responsibility practices and reduction of board size account for an estimated 70% of F&C Investments' engagement in board restructuring.

Figure 6: Percentage Estimates of Board Restructuring Issues (2005 -2011)

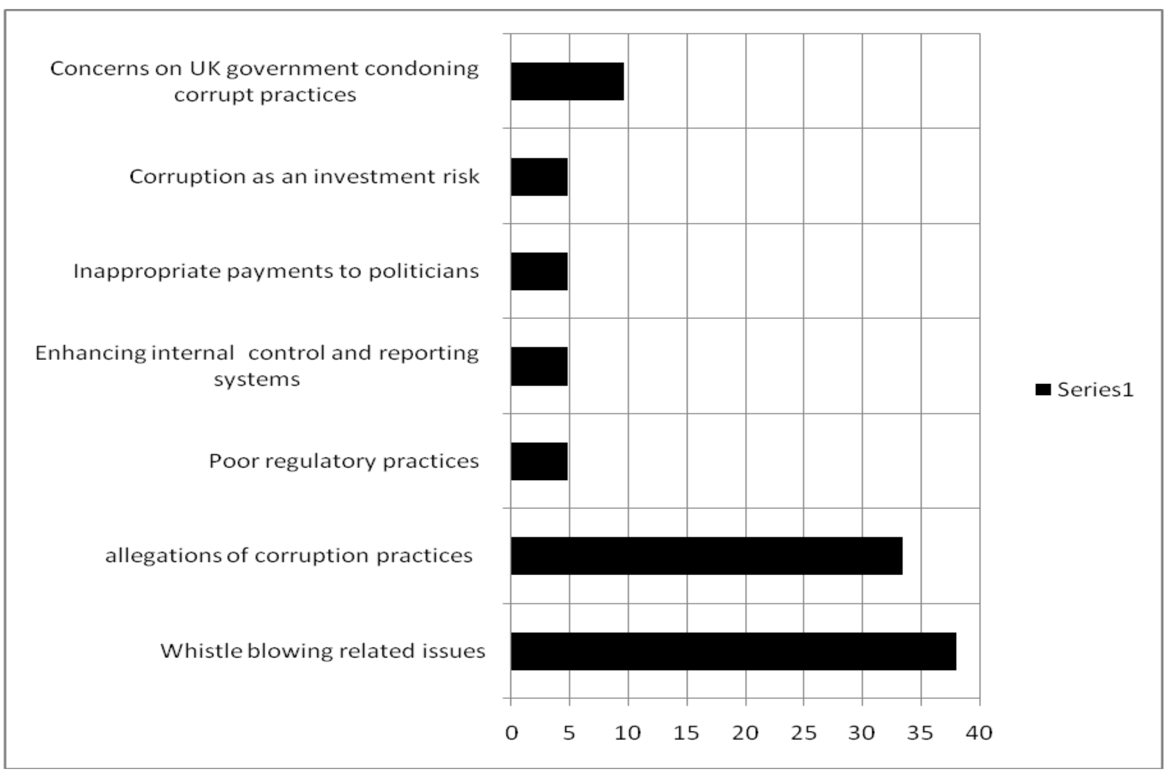


Reduction of Board size, Board transparency and the request for Board performance to be linked to corporate governance and corporate social responsibility practices can be further categorised into sub-themes. In reducing the Board size, F&C Investments were concerned about two main issues; increasing Board independence and reducing a three-tier Board structure to a two-tier structure. The Board transparency issue tended to focus on disclosure of bonus payments made to Board members and encouraging disclosure of Board-related transactions and pay. The request for Board performance to be linked to corporate governance and corporate social responsibility practices was further sub-divided into rewarding Board performance based on corporate social responsibility criteria, clawbacks and benchmarking Board performance against earnings and profits.

6.2.3 Bribery and Corruption

F&C investors raised particular concerns about corruption as an important governance issue it was imperative to address. Figure 7 shows the bribery and corruption issues that investors tended to focus on and address including: whistle-blowing, allegation of corrupt practices, poor regulatory practices, internal controls and reporting systems, inappropriate payments to politicians, corruption in the defence industry, corruption as an investment risk and concerns over the UK condoning corrupt practices. Two bribery and corruption-related issues tended to reoccur; whistle-blowing and allegation of corrupt practices. The whistle-blowing issue can further be classified into the following sub-themes: protection of the whistle-blower, firing of incompetent whistle-blowers, strengthening of and lack of whistle-blowing mechanisms. In the case of allegation of corrupt practices, the two primary concerns were widespread corruption in the defence industry and inappropriate payments to politicians.

Figure 10: Percentage Estimates of Bribery and Corruption Issues (2005 -2011)



6.3 F&C Investments' Engagement in Corporate Social Responsibility Issues

The total number of incidents of institutional investors' engagement in corporate social responsibility issues undertaken by F&C investments over a five-year period (2005 -2010) is listed below. The table below is an aggregation of all the 229 instances when engagement on corporate social responsibility issues by F&C took place over the five year period. As I have previously suggested in the data analysis section, engagement was analysed on the basis of three criteria, the issues of engagement must be mentioned, the method of engagement used and company F&C engaged must be specified. Of the 229 instances when engagement took place, a total of 25 corporate social responsibility issues emerged from the data as can be seen in Table 11.

Some of the corporate social responsibility issues that emerged from F&C engagement report include: health and safety, sustainability, climate change, human rights, managing security concerns, environmental management systems, HIV/AIDS, environment impact assessment, adoption of equator principle, extractive industry transparency initiatives, corporate social responsibility reporting, biodiversity, reduction of carbon emission, community relations, affordable medicine, labour practices, integrating corporate social responsibility and governance themes into investment strategies, community relations issues, internet access, privacy and security, supply chain, diversity and non-discrimination, political influence and lobbying, recycling, enhancing social responsibility practices, and addressing social and environmental risks.

A total of 25 corporate social responsibility issues are shown in Table 11. The number of times these incidents were discussed in the engagement report has been listed in the third column. The fourth column shows the percentage value of the corporate social responsibility incidents. An examination of the table below reveals four reoccurring core issues as the major focus of the corporate social responsibility issues addressed by F&C Investments. These issues account for an estimated 55% of F&C Investments' engagement activity in corporate social responsibility and include issues relating to: health and safety, violated human rights, biodiversity and labour practices.

Table 11: F&C Investments' Engagement in Corporate Social Responsibility Issues

		No. of Times Incidents Discussed	Percentage
1	Health and safety	29	12.6
2	Sustainability	11	4.8
3	Climate change	14	6.1
4	Human rights	27	11.7
5	Managing security concerns	4	1.7
6	Environmental management systems	2	0.8
7	HIV/AIDS	17	7.4
8	Environmental impact assessments	3	1.3
9	Adoption of Equator Principle	1	0.4
10	Extractive Industry Transparency Initiative	6	2.6
11	CSR report	11	4.8
12	Biodiversity	33	14.4
13	Reduction of carbon emissions	12	5.2
14	Community relation	2	0.8
15	Affordable medicine	1	0.4
16	Labour practices	37	16.1
17	Integrate CSR and governance themes into investments strategies	2	0.8
18	Community relation issues	1	0.4
19	Internet access, security and privacy	2	0.8
20	Supply chain	1	0.4
21	Diversity and Non-Discrimination	1	0.4
22	Political influence and lobbying	7	3
23	Concerns regarding recycling	2	0.8
24	Enhancing corporate social responsibility practices	2	0.8
25	Social and environmental risk concerns	1	0.4
		229	100

There is evidence to show that the broadening in scope is not only applicable to corporate governance, the broadening is scope also applies to corporate social responsibility issues. The findings of the research does reveal that there is an emergence of some new areas of interest in corporate social responsibility, some of the new interests include sustainability, integrating corporate social responsibility themes into investment strategies, biodiversity, corporate social responsibility reporting, environmental impact assessment, adoption of the equator principle, enhancing corporate social responsibility practices, extractive industry transparency initiatives as well as internet access, security and privacy.

Sustainability, environmental impact assessment, environmental management systems, biodiversity, recycling, internet access, security and privacy are current issues in corporate social responsibility that are not given considerate attention in corporate social responsibility literature review. The increasing concern about sustainability, environment impact assessment and the developing of environmental management systems by F&C Investment reveals a crucial understanding of how environmental issues can negatively impact the performance of a firm (Clarke, 2007; Keinert, 2008).It is also an acknowledgement by F&C investments that business organization activities are capable of causing significant harm to the environment. F&C investment in ensures that companies that they invest in, pay considerable attention to environmental impact assessments evaluation and the developing of environmental management systems. These are important measures taken by F&C Investments to ensure that the businesses they have vested interest in, pursue environmental friendly policies that are targeted at reducing the negative impact of business activities on the environment(Andriof& McIntosh, 2001)..

The peculiar interest in Internet access, security and privacy is an entirely new shift from environmental, social and governance concerns to the increasing influence of technology on corporate governance and corporate social responsibility. It is the recognition of the fact that technology is becoming a tool and instrument that affects all facets of human life and endeavour.

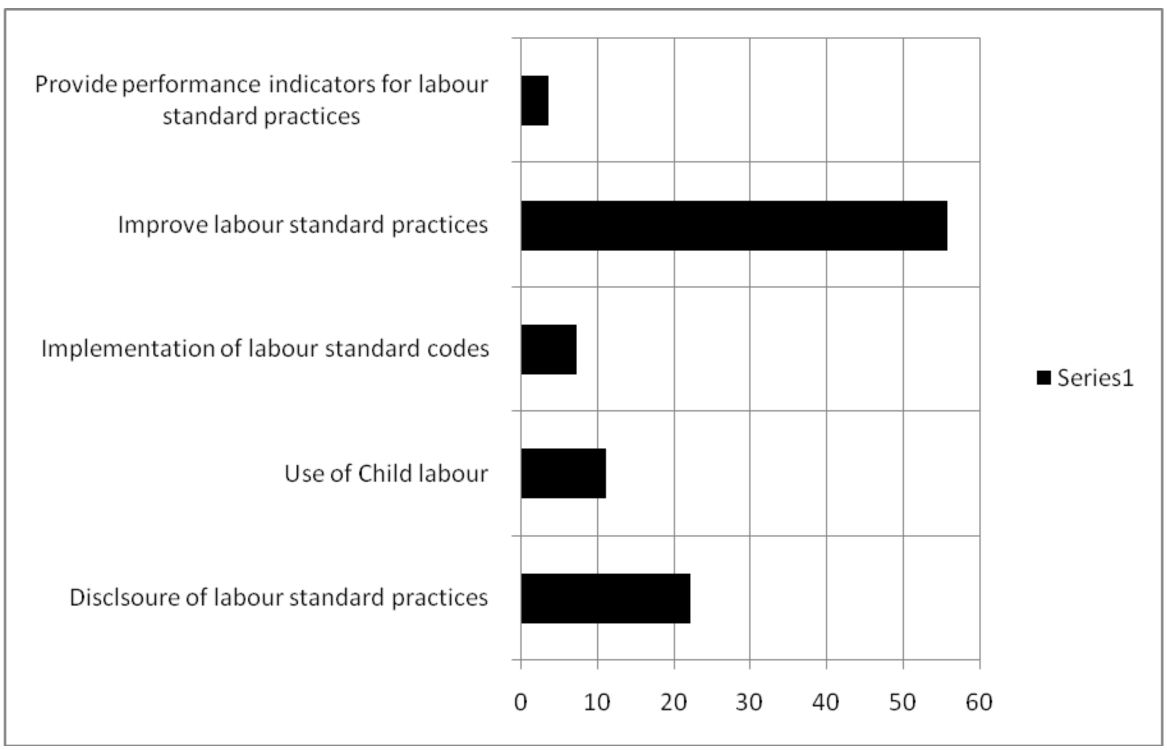
This is more so in the field of business activity, the increased reliance on lap top, smart phones and other technological devises have immensely contributed to enhancing business activity and productivity. Business transactions and activities can easily be conducted across the globe with just a touch of the button, it has significantly transformed the way business is done and conducted. However, the increased uses of technology in business are not without its own costs and concerns. Consequently, the increased use of information communication technology in business is fraught with its own risks, hazards and security issues. Of particular importance is how the explosion of information as a result of significant advances in information communication technology has led to the following issues exposing children to inappropriate materials, disseminating of illegal material and content on the internet and also the increased susceptibility to security threats that the reliance on technology has produced.

The next segment will begin by examining the most frequently occurring corporate social responsibility themes. This will provide the reader with a better understanding of the issues involved. Disaggregating the corporate social responsibility themes into sub-themes will also allow the reader a better perception of the issues addressed by F&C Investments.

6.3.1 Labour Standard Practices

Labour standard practices can be regarded as administrative rulings and precedents which address the legal rights and restrictions of people and their organisations. As such, it mediates many aspects of the relationships between trade unions, employers and employees. F&C finds that there are several clearly dissatisfactory labour practices about which it continues to raise objections, including the use of child labour, disclosure of labour standard practices, improving labour standard practices and implementation of labour standard codes. 70% of the issues that F&C Investments' engagement addressed in labour standard practices were related to the disclosure and improvement of labour standard practices. Sub-themes of improving labour standard practices include: underpayment of wages, poor supply chain practice, poor employment practice, poor factory working conditions, unfair terms of work and aggressive anti-union labour practices.

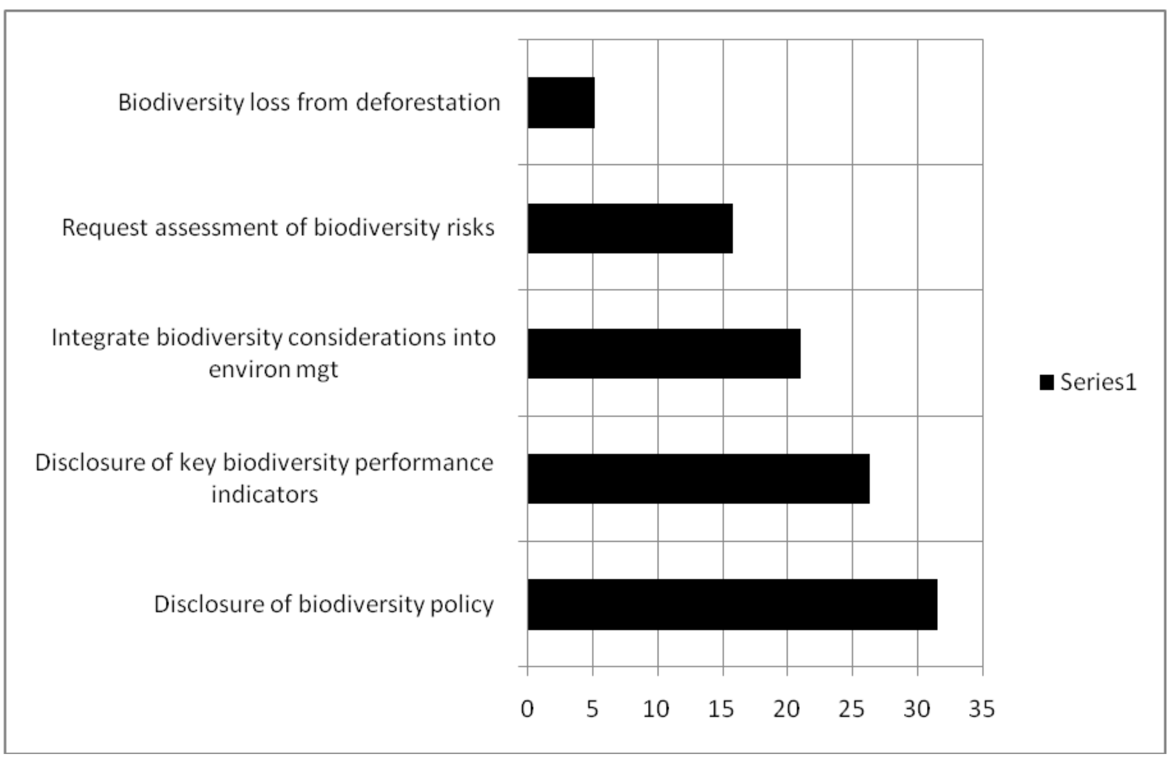
Figure 8: Percentage Estimates of Labour Standard Practices Issues (2005 -2011)



6.3.2 Biodiversity

Biodiversity is a term used to describe the variety of life on Earth. It refers to the various ecosystems and living organisms: animals, plants, their genes and habitats. Biodiversity is a measure of the health of ecosystems and in part a function of climate. In terrestrial habitats, tropical regions are typically rich in life whereas polar regions support fewer species. F&C Investments were found to be concerned about the following biodiversity corporate social responsibility issues: loss from deforestation, assessment of biodiversity risk, the integration of biodiversity considerations into environmental management, disclosure of key biodiversity performance indicators and disclosure of its biodiversity policy. Disclosure of its biodiversity policy and biodiversity performance measures, and integrating biodiversity concerns into environmental management account for more than 75% of F&C Investments' biodiversity engagement.

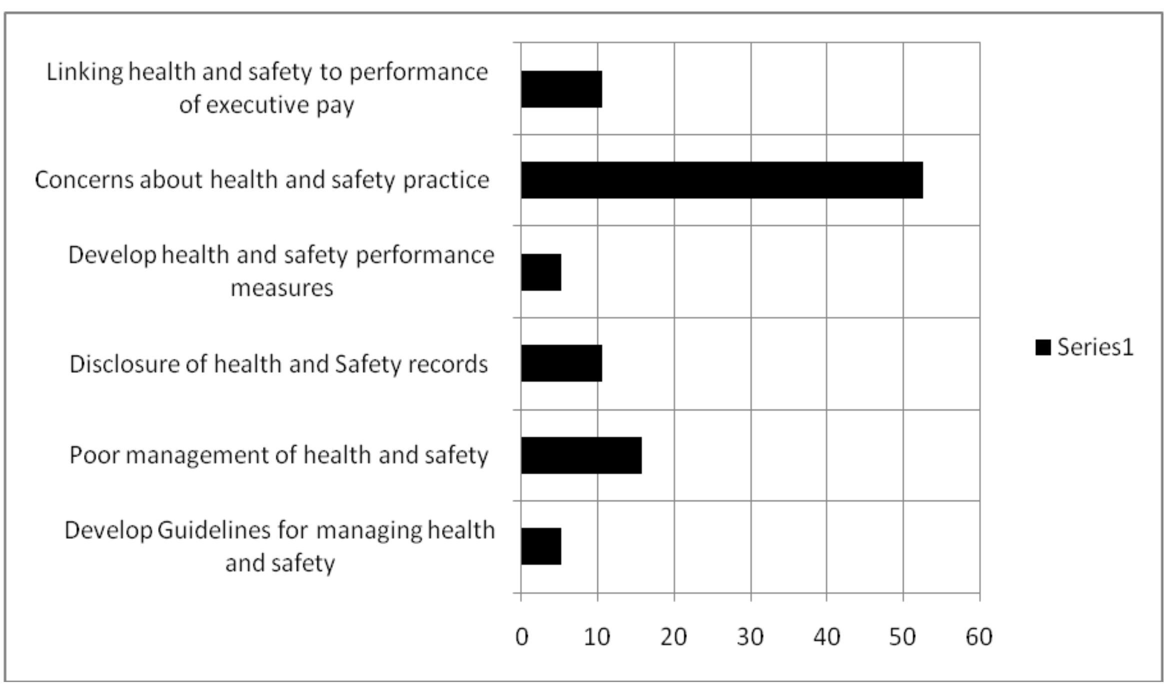
Figure 9: Percentage Estimates of Biodiversity Issues (2005 -2011)



6.3.3 Health and Safety

The term 'health and safety' relates to an organisation's procedures for identifying workplace hazards and reducing accidents and exposure to harmful situations and substances. It also includes training of personnel in accident prevention, accident response, emergency preparedness and use of protective clothing and equipment. The health and safety issues which F&C Investments considered important include linking health and safety performance to executive pay, concerns about health and safety practice, developing health and safety performance measures, disclosure of health and safety records and poor management of, and developing guidelines for, health and safety. Concerns around health and safety practices can be considered the most prevalent engagement issue for F&C Investments accounting for an estimated 55% of its health and safety engagement. Concerns about health and safety practice can be further classified into the following themes: poor health and safety records of Royal Dutch Shell, enhancing the safety of mines in developing countries and concerns about health and safety in extractive industries.

Figure 10: Percentage Estimate Health and Safety Issues (2005 -2011)



6.3.4 Human Rights

Human rights are commonly understood as inalienable fundamental rights to which a person is inherently entitled simply because she or he is a human being. Human rights are thus conceived as universal (applicable everywhere) and egalitarian (the same for everyone). These rights may exist as natural rights or as legal rights, in both national and (United Nation Charter on Human Rights, 1948). F&C Investments encourages companies operating in areas subject to weak rule of law, conflict or significant incidence of human rights abuses to manage the risks to their business by addressing the following issues: lack of non-discrimination policy on sexual orientation, poor legislative and regulatory human rights policy, allegations of the misuse of force, the human rights crisis in Darfur and human right risks. Human right risks and non-discrimination policy on sexual orientation account for more than 70% of F&C's engagement. Human right risks can further be categorised into the following: developing guidelines and standards for assessing human right risks, managing human rights and reputational risks and concerns regarding implementing standards and identifying human right risks in business operations.

Figure 11: Percentage Estimates of Human Rights Issues (2005 -2011)

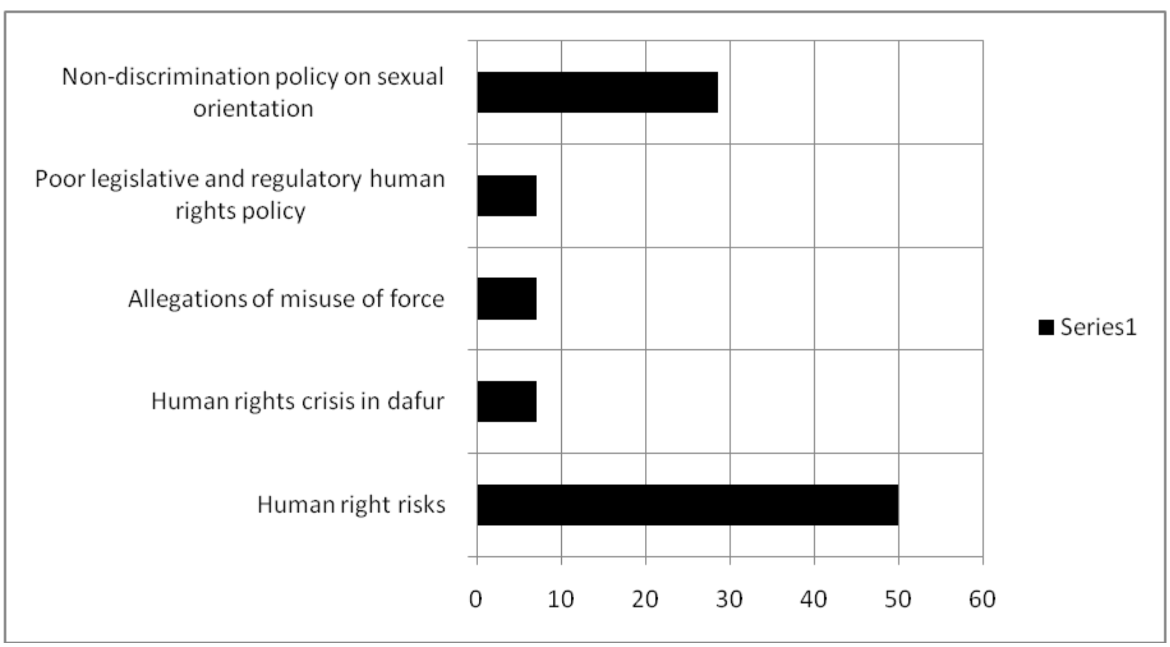


Table 12: Longitudinal Analysis: F&C's Engagement in Corporate Governance

		2005	2006	2007	2008	2009	2010
1	**Executive remuneration**						
	Review of executive pay	3	0	0	2	3	4
	Independence of remuneration consultants	0	1	0	0	0	0
	Clawbacks	0	1	0	2	2	1
	Bonus payments	8	3	0	0	0	0
	Voting on executive pay	2	2	3	1	1	1
	Executive pay and performance	1	1	4	5	4	2
	Disclosure on executive pay	0	1	1	0	2	0
2	**Bribery and Corruption**						
	Enhancing internal controls reporting systems	0	0	1	1	2	2
	Poor regulatory practices	0	0	1	0	0	1
	Whistle-blowing	1	1	1	6	1	2
	Corruption as an investment risk	1	0	1	0	0	1
	Allegation of corruption	0	3	2	1	0	1
	Concerns about UK government cordoning corruption practices	0	1	0	0	0	0
3	**Restructuring of the Board and Board Performance**						
	Board Independence	9	0	3	3	5	3
	Re-election of directors	3	2	0	4	3	2
	Board declassification	1	1	0	0	0	1
	Reduction of Board size	3	2	2	8	0	1
	Separate the role of chairman and CEO	0	4	0	0	0	2
	Removal of director	2	2	0	0	1	1
	Link performance to CG and CSR	1	3	3	2	4	0
	Board acting without shareholder approval	0	2	0	0	0	2
	Board Transparency	3	0	1	0	0	0
4	Concerns regarding issuance of new capital				2		
5	Illegal transfer pricing				1		
6	Transparency in business operations		2		1		
7	Risk Management		2		1		
8	Voting	3	4				
9	Improvement in governance practices		1	1			
10	Encourage shareholders to vote			1		2	1
11	Concerns regarding financial restatement of accounts			2			
12	Improve production practice			1			
13	Concerns regarding management and governance			1			
14	Shareholder approval		1			1	
15	Approval of anti-takeover		1				
16	Shareholder blocking		1			1	
17	Poison pill	3	1				
18	Shareholder repurchase scheme	2					
19	Preemptive rights						
20	Poor governance practice related issues				3	2	1

6.4 Longitudinal Analysis: F&C's Engagement in Corporate Governance and Corporate Social Responsibility (2005-2010)

Table 12 above reveals F&C Investments' engagement in corporate governance over a six-year period. It provides a detailed picture of all corporate governance issues that F&C examined and the number of times F&C Investments engaged in a particular corporate governance issue. F&C Investments prioritised the following issues: Board independence, reduction of Board size, whistle-blowing, executive pay and performance, bonus payments, voting on executive pay, re-election of directors, request for Board performance to be linked to corporate governance and corporate social responsibility. Over the six-year period, other corporate governance issues in which F&C engaged include: concerns regarding the issuance of new capital, illegal transfer pricing, improving production practice, encouraging shareholders to vote, shareholder approval, concerns regarding financial statements and accounts and concerns regarding management and governance practice.

Similarly, an examination of Table 13 below reveals F&C Investments' engagement in corporate social responsibility over a six-year period. The following corporate social responsibility issues were prioritised by F&C Investments: improve labour standard practices, CSR report, concerns about health and safety practice, reduction in carbon emissions, climate change, sustainability, political influence and lobbying, human right risks and disclosure of biodiversity. Over the six-year period, there were also corporate social responsibility issues that F&C engagement dealt with in once, such issues include: provide quantitative performance indicators for labour standard practices, biodiversity loss, disclosure of health and safety performance measures, poor legislative and regulatory human rights policy, environmental impact assessment, adoption of equator principle, HIV/AIDS, concerns regarding affordable medicine, community relations issues; internet access, security and privacy.

Table 13: F&C's Engagement in Corporate Social Responsibility

		2005	2006	2007	2008	2009	2010
1	**Labour Standard Practices**						
	Disclosure of labour standard practices	6	0	0	0	0	0
	Use of child labour	1	0	0	2	3	3
	Implementation of labour standard codes	2	3	0	0	0	0
	Improve labour standard practices	3	0	4	5	2	2
	Performance indicator for labour standard practices	1	0	0	0	0	0
2	**Biodiversity**						
	Disclosure of biodiversity policy	4	1	0	0	3	1
	Biodiversity performance indicators	2	1	0	0	0	1
	Assessment of biodiversity risk	1	0	3	0	0	0
	Biodiversity loss	0	1	0	0	2	1
	Biodiversity management	2	2	0	0	0	2
	Integrate biodiversity concerns into environmental management	1	1	1	1	1	1
3	**Health and Safety**						
	Develop guidelines for managing health and safety	0	1	0	0	1	2
	Concerns about health and safety practice	6	2	0	2	4	0
	Develop health and safety records	0	1	0	1	0	0
	Health and safety performance measures	0	1	0	0	0	1
	Poor management of health and safety	0	1	0	0	2	0
	Aligning health and safety to executive pay	0	0	1	1	1	1
4	**Human rights**						
	Human rights risks	5	0	0	2	3	1
	Non-discrimination policy on sexual orientation	3	1	0	0	1	1
	Allegations of the misuse of force	0	0	1	0	0	0
	Poor legislative and regulatory human rights policy	0	0	1	0	2	2
	Human rights crisis in Darfur	0	0	0	1	0	3
5	Managing security concerns	1		1			2
6	Development of Environmental Management systems	1		1			
7	Concerns regarding HIV Risks	2	1	2	1	12	
8	Undertaking Environmental Impact Assessments			1			2
9	Adoption of Equator Principle			1			
10	Support Extractive Industry Transparency Initiative	3		1	2		
11	CSR report	10		1			
12	Reduction of Carbon Emissions	2	4	2	2	2	
13	Managing community relation welfares	1		1			
14	Concerns regarding affordable medicine			1			
15	Integrate CSR and governance themes into investments strategies						2
16	Community relation issues				1		
17	Internet Access, Security and Privacy				1		1
18	Concerns regarding supply chain						
19	Diversity and Non Discrimination						
20	Political Influence and lobbying	2	5				
21	Concerns regarding recycling	2					
22	Enhancing Corporate Social Responsibility practices		1				1
23	Social and Environmental Risk Concerns	1					
24	Sustainability	0	1	2	8		
25	Concerns regarding climate change	2	2	3	4	3	
26	Ecological sensitivity	2					

6.5 A Comparison of the Findings of F&C Investments' Engagement in CG and CSR Issues and Findings of the CG and CSR Issues in the Literature Review

A comparison of corporate governance issues from the literature review and from the findings of the corporate governance issues in F&C Investments reports reveals some significant differences. There are noteworthy changes in the governance issues being examined; a change in focus of corporate governance issues and also an emergence of new corporate governance issues that were previously largely ignored. The anti-takeover issue was considered to be a significant area of interest for institutional investors with issues such as elimination of poison pill, golden parachutes, prohibition of green-mails payments and repeal of classified Board (Gillan and Stark, 2000;Karpoff, 2001; Romano, 2001). While the anti-takeover issue did receive the attention of F&C Investments, it did not receive the same level of attention as the literature review. Bribery and corruption has been given little or no attention in the literature review, however it has emerged as a serious concern for F&C Investments, where issues such as whistle-blowing and strengthening internal control systems were given priority. Executive remuneration remains an area considered to have significant importance in the corporate governance literature review and F&C Investments reports; however there are some changes in the focus of remuneration (Conyon et al., 2000; Dong and Ozkhan, 2008).

For example, F&C Investments reports concentrate on aligning executive pay to corporate social responsibility performance issues, independence of remuneration consultants and clawbacks. These particular issues have not been raised in the corporate governance literature review. The same applies to strengthening of the board which is considered an important element of corporate governance practice (Mallin, 2006; Solomon, 2010). While the strengthening of the Board issue is considered an important area of interest both in the corporate governance literature and the F&C Investments report, the focus of F&C Investments has shifted, with issues such as board transparency, opposition of Board acting without shareholder approval and request for board to link performance to corporate governance and corporate social responsibility criteria issues seemingly less important in the corporate governance literature currently.

In a similar vein, the comparison between corporate social responsibility issues in the literature review and the findings of the corporate responsibility issues in the F&C Investments reports reveals some significant differences. The focus of investigated corporate social responsibility issues seems to be changing; the literature review on corporate social responsibility appeared to focus on the military, alcohol, tobacco, firearms, diversity and non-discrimination (Grave et al., 2001; Monks et al., 2004). There are significant changes in the corporate social responsibility issues being examined, a change in focus of corporate social responsibility issues and also an emergence of new corporate social responsibility issues that were previously largely ignored or perhaps non-existent.

Environmental issues remain relevant in the corporate social responsibility literature review (Tkac, 2006) however new environmental concerns have emerged such as the development of environmental management systems, environmental risk assessments, ecological sensitivity and sustainability concerns, which were not discussed in the corporate social responsibility literature. Labour standard practices is another issue given considerable attention in the corporate social responsibility literature (Chidambaran and Woidtke, 1999). Some labour standard practice issues such as child labour and improving labour standard practices are still of concern to F&C Investments(Grave et al.,2001) however other issues in the corporate social responsibility literature such as the third world debt crisis/cancellation policy and implementing the MacBride Principles do not appear to be an area of concern in the F&C Investments reports.

In the F&C Investments reports, the military, alcohol, tobacco and firearms are not issues that have received significant attention whilst biodiversity, human rights and health and safety concerns have been given priority. New, important corporate social responsibility issues have emerged such as recycling, integrating corporate social responsibility and corporate governance themes into investment strategies, adopting the equator principle and the extractive industry transparency initiative, the internet, security and privacy. These issues are not present in the corporate social responsibility literature.

In summary, F&C's engagement in corporate governance and corporate social responsibility is beginning to embrace broader corporate governance and corporate social responsibility issues and in some instances performance in corporate governance is benchmarked against specific corporate social responsibility criteria, for example the integrating of corporate governance and corporate social responsibility themes into investment strategies. This is consistent with the findings of Hendry et al.(2007) and Hebb et al.(2012).

6.6 Integration of Corporate Governance and Corporate Social Responsibility Issues into Institutional Investors' Engagement Strategy

Neither agency theory nor stakeholder theory completely explains the motives for institutional investors' involvement in corporate governance and corporate social responsibility. Both theories however offer a degree of rational explanation (Solomon, 2010). Agency theory explains the economic incentive for involvement in corporate governance issues such as to enhance earnings and profitability, to address poor company performance and to mitigate situations that allow managers of corporations to pursue their personal interests rather than those of shareholders (Jecken and Meckling, 1976; Kim and Mahoney, 2005; Gomez-Mejia and Wiseman, 2007). Agency theory has remained dominant for more than five decades as the reason for investors' involvement in corporate governance, but in reality it is evident that institutional investors are not only incentivised by economics(Hendry et al., 2007).

There is more to institutional investors' engagement than is explicated by agency theory. Agency theory emphasises the importance of institutional investors' engagement addressing financial performance-related issues, but it clearly fails to take into consideration addressing the environmental and social issues that arise as a result of business corporations' activities (Solomon, 2010). Stakeholder theory tends to embrace a broader theoretical exposition recognising that business has a responsibility to address environmental and social issues that may threaten the continuity of their business (Hills and Jones, 1992; Donaldson and Preston, 1995; Jonker and Foster, 2002). The notion that to neglect environmental, social and corporate social responsibility issues incurs financial consequences for modern day corporations is not just a theoretical proposition (Keinert, 2008). Research on the involvement of institutional investors in corporate social responsibility evidences that the neglect of social, environmental and corporate social responsibility issues can have a negative impact on the financial performance of a corporation (Armour et al., 2003; Solomon et al., 2004).

The findings of this research reveal that F&C are integrating environmental, social and governance issues when making institutional investor engagement decisions. This is consistent with the literature review on institutional investors' engagement practices in the UK (Sparkes and Cowton, 2004; Gifford, 2012). According to Solomon (2010), the recent evolution of terminology from SEE (social, ethical and environmental) to ESG (environmental, social and governance) factors shows that social and environmental issues are being integrated into the core of corporate governance concerns for the institutional investment community. This represents a slight change in attitude of business and financial institutions towards social responsibility, endorsing a broader remit for governance than the encapsulated agency theory.

The integration of corporate governance and corporate social responsibility indicates that the ways in which institutional investors' engagement is being practised are evolving (Solomon, 2010). Institutional investors' engagement with corporations may need to embrace this new reality to allow them to adapt their engagement strategies. The literature review on institutional investors' engagement practices has examined institutional investors' engagement in corporate governance and corporate social responsibility as independent and isolated activities. Corporate governance engagement was seen as distinctive and separate from corporate social responsibility engagement; they were not considered to be connected. Thus, investors' engagement has treated corporate governance and corporate social responsibility practices as isolated elements. The findings of this research also reveal that investors are equally concerned about corporate social responsibility and corporate governance issues. Institutional investors' involvement in corporate governance issues such as executive remuneration, restructuring of the Board and independence of directors is equally important as institutional investors' involvement in corporate social responsibility issues such as biodiversity, health and safety, climate change and biodiversity.

6.7 Analysis of Strategies Used in Engagement Practices

An examination of 26 F&C engagement and responsible investment reports over a six-year period reveals that F&C Investments have advanced their methods and strategies of institutional investors' engagement beyond those methods in isolation. F&C Investments have developed a way of dealing with situations where dialogue fails to influence corporate behaviour and practice. For F&C it is very difficult to capture the general trend in engagement in terms of percentage since F&C presents its data quarterly and engagement occurs over several quarters. However it is possible to observe how engagement strategy has unfolded over various quarters and what strategies have been effective in influencing changes in corporate behaviour, practices and policies. Due to the longitudinal examination of F&C's engagement it is also possible to identify what measures F&C takes to influence corporate behaviour and practices.

Dialogue is an essential tool employed by F&C in engaging with investee companies. Dialogue is not undertaken lightly and is used in a variety of ways; letters and e-mails, telephone conversations and one-to-one meetings with executive members of the companies. There is no indication of a fixed amount of time over which dialogue can occur; the findings in F&C engagement reports demonstrate that dialogue on particular issues can continue for a considerable length of time, possibly a few months, or a period of years, depending on the issue in question. F&C also seeks to influence, encourage and support companies in their efforts to adopt 'best practice' across a range of mainstream environmental, social and governance issues. This is achieved by engaging in sustained, constructive, two-way communication with companies to understand and discuss how they can better reduce their risks and manage any negative impacts on the environment and society. The opportunities that exist as the economy adapts to challenges such as climate change are also discussed. F&C seeks to develop dialogue with companies in order to better understand and encourage improvements to individual market circumstances and company practices.

The findings of this research reveal that institutional investors such as F&C Investments do not resign themselves when dialogue fails to achieve a desired outcome; they usually pursue an alternative course of action. F&C also co-operates, where appropriate, with like-minded investors or other stakeholders in order to emphasise shared concerns. As a general rule, F&C will avoid public comment on the details of its engagement with companies in order to enable in-depth, constructive discussions in a climate of trust and confidentiality. However, where discussions on an issue of major significance have not been satisfactory, F&C has filed a shareholder resolution/proposal. There are 30 significant cases that show the use of multiple methods in engagement by F&C in its engagement reports. Table 14 below shows five main issues in which dialogue failed to resolve an issue and shareholder proposals by F&C resulted in change in corporate behaviour. Executive remunerations and restructuring of the Board accounted for more than 60% of these issues. The researcher will discuss seven specific instances in detail.

Table 14: Use of Shareholder Resolutions When Dialogue Fails

		Number of Incidents	Percentage
1	Executive Remuneration	9	30
2	Restructure of Board and Board Performance	11	36.7
3	Voting	4	13.3
4	Labour Standard Practices	4	13.3
5	Sustainability	2	6.7
		30	100

6.7.1 Engagement 1: Labour-Related Concerns and Abercrombie & Fitch

F&C views shareholder proposals as a potentially useful tool for escalating pressure when all attempts at dialogue have failed. Disappointingly, in 2010, proposals were often too issue-specific; overly prescriptive or poorly aligned with investors' interests. As in the past when dialogue proved fruitless, F&C resorted to filing a shareholder resolution – in the case of the US teen clothier Abercrombie & Fitch, following four years of efforts to persuade the company to address serious labour-related concerns. This included the company's failure to take an ethical stance on the sourcing of Uzbek cotton, despite evidence of the systematic use of children in the annual cotton harvest, and its reluctance to publish its code of conduct and the results of its factory inspections. A remarkable 53% of investors supported the first-time resolution. The resolution on F&C intensive engagement in 2009 and 2010 proved effective in resolving the impasse: in autumn 2010, F&C met with company managers responsible for human rights to discuss the implication of this extraordinary demonstration of investors' concern. Subsequently, Abercrombie & Fitch has published its supplier code of conduct, begun to disclose limited information on its audit procedures and adopted a policy of banning suppliers from sourcing cotton from Uzbekistan until the use of forced and child labour has been addressed.

6.7.2 Engagement 2: Excessive Executive Remuneration Payouts in US Companies

In 2005 F&C issued letters to several US companies in their portfolio regarding excessive payments to executives despite their poor performance. When dialogue and discussion surrounding executive pay failed to produce any meaningful results, F&C began voting against members of the compensation committee of companies such as Gillette, Home Depot and Wells Fargo. In 2007, F&C continued to oppose committee chairmen and members where pay was disproportionate to performance.

However, they began to realise that voting against compensation committees was proving inadequate in addressing pay issues. In the same year, F&C remained concerned about large payouts on performance metrics that proved inaccurate when companies restated their financials. F&C devised a new strategy for tracking excessive executive payouts and now request that companies sign executive contracts that allow performance-based equity and cash rewards to be clawed back, not only from executives whose errors directly lead to restatements, but potentially from senior leadership as a whole, should the Board deem it appropriate. The purpose of the clawback policy is to address instances where executive pay is not commensurate with performance. In such instances, if deemed necessary by the Board, clawback allows for a refund of excess remuneration paid to executives. In 2007, following two years of communicating the pay practices its US holdings were to adopt, F&C filed shareholder resolutions, including proposals asking companies to give shareholders a vote on compensation committee reports. As a result of the shareholder resolutions, Ingersoll Rand, Motorola and Verison have made the necessary revisions that allow shareholders to make meaningful contributions in establishing executive remuneration.

6.7.3 Engagement 3: Transparent Reporting on Environmental and Health and Safety Management Systems

Despite F&C's best efforts to engage companies in constructive dialogue, some resist calls for transparent reporting of environmental and health and safety management systems. Such was the case with national US drug store chain CVS. After two years of blocked dialogue and repeated fruitless attempts to ascertain how CVS managed sustainability, F&C filed a shareholder proposal, formally requesting a sustainable report. The threat of inviting the entire shareholder base to opine on the issue appears to have induced CVS to make a commitment to producing sustainability reports, subsequently undertaken by the company.

6.7.4 Engagement 4: Labour Violations and Lack of Effective Internal Controls

F&C prefers to engage in long-term dialogue with companies in order to encourage change and protect shareholder value. However, gentle diplomacy can prove inadequate, at which point it is necessary to call on fellow shareholders to add their weight to debate via shareholder resolution. For example, in the 2008 annual general meeting season, F&C opted to escalate its concerns with Wal-Mart. F&C was the lead filer of a proposal aimed at Wal-Mart following reports of consistent violations of a wide range of labour practices which raised concerns over the effectiveness of internal controls. Eventually the company agreed to meet with a number of stakeholders – including F&C, its co-filers and other investors – to provide information and a forum for stakeholders to develop a deeper understanding of how the company implements its domestic labour policies as a large, fast-moving corporation.

6.7.5 Engagement 5: Voting Caps

With a deep-rooted tradition of unequal voting structures, France - like several other European countries - is far from adopting the principle of 'one share one vote.' Shareholders in French companies face particularly large obstacles to establishing meaningful dialogue as companies are shielded from shareholder discontent at the ballot box. Most pernicious is the use of voting ceilings or voting caps. For example, larger shareholders cannot effectively vote on their holdings if they exceed a certain percentage of the company. F&C has been engaging with French companies on this issue for over five years, but most have strongly resisted. Following long-standing but almost entirely fruitless attempts at dialogue, F&C joined French governance specialist Pro-Invest active investors in an unprecedented campaign to put voting caps to a shareholder vote. This resulted in the decision to abolish voting caps in two companies: Vivendi and Lafarge, a milestone in French corporate governance which will increase pressure on other companies to end the practice.

6.7.6 Engagement 6: Sustainability Reporting

Shareholder resolutions and proposals are not necessarily F&C's primary methods of engagement. Dialogue with companies is usually the preferred method, but when a concerted attempt at dialogue fails, F&C files a shareholder resolution. For example in its 2006 engagement report, it clearly states that F&C prefers to build rapport with companies through discreet, long-term dialogue, but that when the limits of diplomacy are reached, the next step is to file shareholder proposals. F&C recently took its case for change to shareholders, filing resolutions at Illinois Tool Works. As an industrial manufacturing company, Illinois Tool Works' health and safety and environmental impacts need to be managed carefully, yet the company was conspicuous for its poor transparency around these issues. After two years of unsuccessful dialogue, F&C filed a first-time shareholder proposal requesting the company to publish an annual sustainability report. This prompted the company to resume dialogue and commit to improvements.

6.7.7 Engagement 7: HIV/AIDS Beyond Africa

The HIV/AIDS epidemic is one that has continued to cause F&C and other institutional investors much concern. HIV/AIDS is already being acknowledged as potentially one of the 21st century's greatest humanitarian crises. Its economic impact has yet to be fully understood, and only hindsight will reveal whether it joins the ranks of major economic shocks. In a unique collaboration between one of the UK's largest fund managers and a sell-side investment house, UBS's Customized Research Team worked with F&C to produce the report: *HIV/AIDS Beyond Africa: Managing the Financial Impacts.* F&C and UBS focus on the ways in which HIV/AIDS could affect financial performance and what companies can do to manage the effects of the disease.

F&C distributed the *HIV/AIDS Beyond Africa* report, sending copies to 50 emerging market companies in Brazil, Russia, India and China. During the same year, F&C engaged with the following companies on their management of HIV/AIDS-related issues: Anglo-American, Barclays, BHP Billiton, BP, Chevron-Texaco, Coca-cola, Colgate, Palmolive, Compass Group, CVRD, Imperial Tobacco, Lonim, Newmont Mining, Xstrata, and Standard Chartered.

One year later, the following changes had been made:

1. BHP Billiton and Xstrata had launched a voluntary council and testing programmes.
2. Anglo-American and Lonim had begun to offer anti-retroviral treatment to workers.
3. Exxon-Mobil, HSBC, Colgate and Palmolive introduced a policy to communicate clearly its non-discriminatory policies regarding HIV status in order to de-stigmatise the disease.
4. Johnson and Johnson, Barclay, Absa, BP and Standard Chartered now report to shareholders and stakeholders how HIV/AIDS is being managed.

6.8 Use of Multiple Methods in Institutional Investors' Engagement

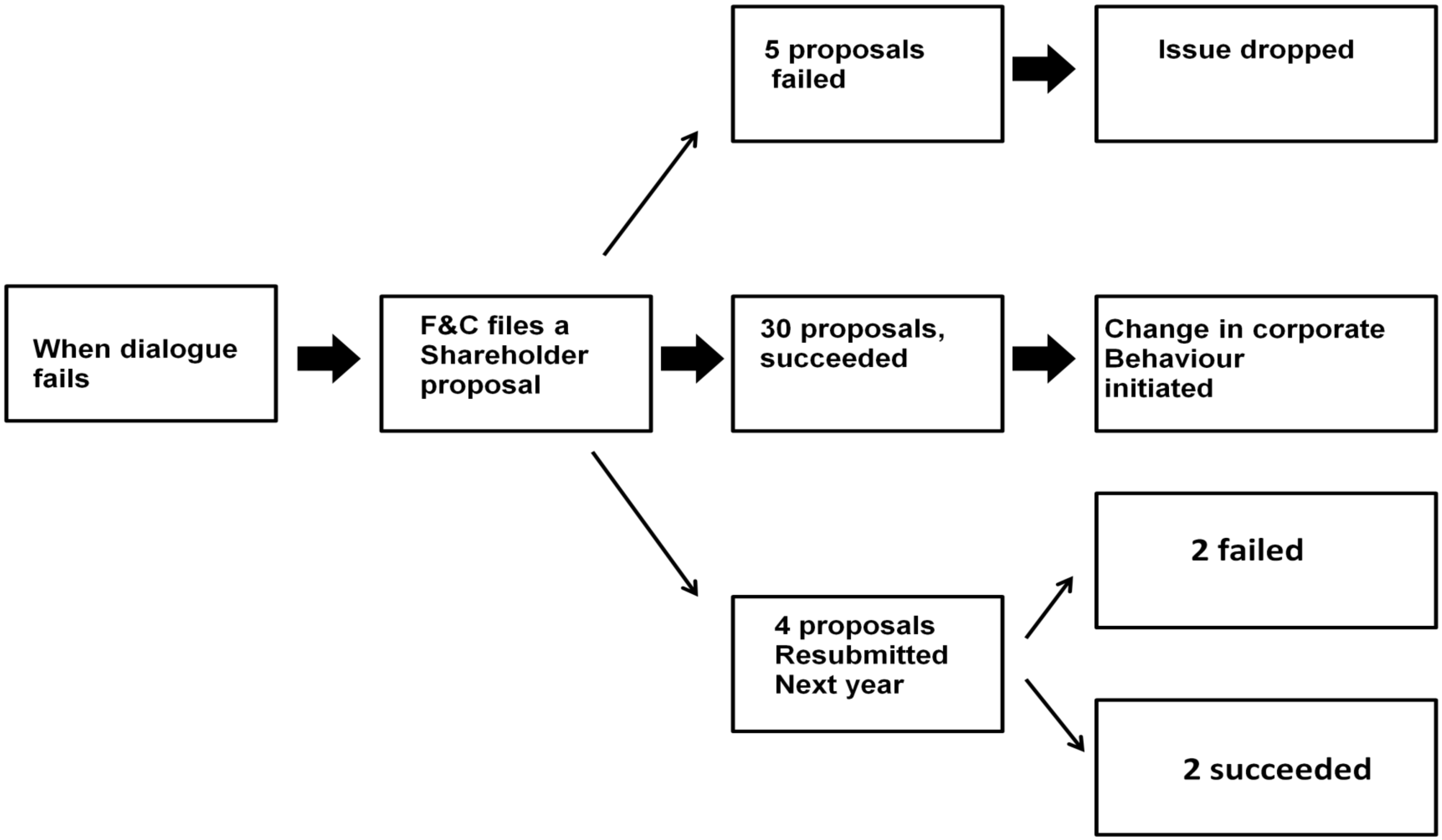
The significance of agency theory in engagement is easily observable: the most important perspective it reveals is the tension that generally exists between the principal and the agent (Kim and Mahoney, 2005; Gomez-Mejia and Wiseman, 2007). This tension exists in modern day corporations. Institutional investors use various engagement methods and strategies to steer or align the values of the principal and the agent (Smith, 1996; Gillian and Stark, 1998) including incentives, monitoring and threat of exit (Mclaren, 2004). Incentives are gentle measures such as offering attractive bonuses and allowances to encourage agents to be more responsive to the needs of the principal (Filatocheve et al 2011). Monitoring the agent through the use of non-executive directors can be expensive and at times inefficient – a simple explanation for this is that it is largely due to the asymmetries of information that exist between these two parties (Mallin, 2006): one party has more information – more power and more control – while the other has less.

Using threat of exit may lead to investors selling their ownership rights, but it is mostly used as a last resort (Mclaren, 2004). Although exit from a firm may ensure that investors' dignity and monies are intact does it actually solve the issues and predicaments faced by the firm – for example incompetent Board members or poor financial performance – issues which tend to remain despite exiting (Solomon, 2010). On the other hand, exiting may send misleading signals which, in the long run, may reduce the market value of the company, thereby worsening the situation (Gillan and Stark, 2007). Exiting may not be an option for fund managers and institutional investors who have large amounts of company shares and stockholding (Monks et al., 2004) as it would result in substantial loss in value in their shares and stockholding (Mallin, 2006). The last remaining option is proactive engagement; addressing the issues at hand, ensuring that ailments are rectified, creating the way for the firm to return to a productive form and ensuring that long-term shareholder value is created (Southwood, 2003).

The literature review emphasises that institutional investors use various strategies and methods to influence corporate behaviour, practices and policies (Logsdon and Van Buren 2009). Dialogue with investee companies may take the form of one-to-one meetings, discreet negotiation and communication to management in writing(Collier, 2004). Other methods include the use of shareholder resolution, voting, buying and selling of shares, use of public campaigns and media pressure (Gifford, 2010; Hebb et al., 2012). Dialogue, gentle negotiation and rational discourse is considered the preferred method and strategy of institutional investors' engagement (Sparkes and Cowton, 2004; Solomon, 2010). While there are advantages and disadvantages to the use of dialogue, there is evidence to suggest that results are difficult to quantify and that, at times, dialogue fails to influence corporate behaviour (Hebb et al., 2012).

When failure to influence corporate behaviour occurs, what action do institutional investors take? What is the alternative course of action? In the case of F&C, a shareholder resolution/proposal is filed with the intention of raising public awareness of an issue, inviting other investors and stakeholders to add leverage by voting either in support of the proposal or

Figure 15: Use of Multiple Methods in Engagement by F&C Engagement



against it. The case studies above show that F&C initially engages with the companies in question on an issue, with dialogue occurring over a substantial period of time. There are indications that dialogue can last a number of years before a shareholder proposal is filed. When a shareholder resolution is filed there are three possible outcomes: failure to achieve a majority vote and the issue in question is dropped by F&C and other shareholders; the shareholder proposal succeeds with an overwhelming majority and subsequently a change in corporate behaviour and practice is initiated; the shareholder proposal does not receive a majority of votes but receives enough to allow for the shareholder proposal to be submitted again the following year. When a shareholder proposal is re-submitted the following year, there are two possible outcomes: the issue fails to receive majority support and is dropped or; it succeeds in receiving majority support and the process of change in corporate behaviour is initiated. In the diagram above, F&C filed a total of 39 shareholder resolutions when dialogue failed to yield the desired outcome. A total of 30 shareholder proposals succeeded in changing corporate behaviour and practice, five shareholder proposals failed and consequently the issues were dropped. Four other shareholder proposals failed to garner a majority vote, the four were resubmitted the following year, two of the shareholder proposals failed and the other two shareholder proposals succeeded in garnering majority vote.

There are particular instances when collaboration with other investors may be the most effective form of engagement (Becht et al., 2007). Collaborative engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten the viability of an industry instead of a particular company. Institutional investors should disclose their policy on collective engagement (McLaren, 2004). When participating in collective engagement, institutional investors should pay due regard to their policies on conflicts of interest and insider information. F&C's engagement tends to focus on one-to-one engagement with companies, but at times it suggests that it is more effective for many investors to collaborate; pooling resources and co-ordinating their approach. For this reason, F&C actively participates in many collaborative investor networks world-wide.

Certain issues such as escalating executive pay, climate change and biodiversity cannot be addressed by engaging a single corporate entity (Hebb et al., 2012). For engagement on issues such as climate change and biodiversity to be effective, many more corporations and firms must be involved at industry level for any meaningful result to be attained. The process of collaborative engagement involves presenting the financial implications in terms of social, environmental and reputational risks. Institutional investors such as F&C begin by researching a particular issue extensively and ultimately produce a report which highlights the threats that a particular industry may face if the issue is not addressed. These extensively researched reports are distributed to the companies affected, whilst simultaneously F&C and other investors hold meetings and discussions with the companies in question. This collaborative engagement and use of extensive research provides the financial implications of failing to respond to concerns.

F&C also collaborate where possible with investee companies to drive improvements in policy and practice through working groups and joint initiatives on a wide range of ESG issues. Particular issues such as climate change, environmental pollution, global warming, HIV/AIDS, biodiversity and corruption cannot be handled effectively by engaging with specific firms; a collective approach must be pursued if any meaningful progress is to be achieved. It is important to identify that F&C's approach to collaborative engagement differs significantly from its company-specific approach. In its collaborative approach, a report on HIV/AIDS was produced revealing the implications of ignoring the epidemic. F&C makes a case for addressing HIV/AIDS by suggesting that the disease could lead to reduced productivity of the workforce and an increase in worker turnover and absenteeism which in turn can greatly affect a company's earnings and profitability. In addition, F&C also recommends specific actions companies can take to address issues. For example, in the case of HIV/AIDS, F&C and UBS recommend their investee companies should implement a voluntary counselling and testing policy. In reality, this represents a risk assessment that enables companies to ascertain the percentage of their workforce that has been infected by the disease. Programmes also exist that are targeted at education, awareness, prevention, wellness and treatment to manage the disease and mitigate its impacts.

A cursory examination of F&C engagement over a six-year period reveals that its strategic approach to engagement is targeted at creating long-term value. The intention of F&C engagement is to ensure that companies focus on tackling issues that can, in the long-term, create significant shareholder and stakeholder value. In five instances where dialogue failed, shareholder proposals were filed by F&C. There is evidence to suggest that F&C engaged in dialogue with some of the companies for a considerable length of time and when dialogue broke down used another method of engagement (shareholder resolutions) in applying pressure to influence corporate behaviour and practices. When F&C realised the first method of engagement was not yielding results, it changed strategy.

The long-term perspective can also be perceived in F&C's approach to tackling complex issues such as biodiversity, climate change, labour standard practices and HIV/AIDS. Addressing theHIV/AIDS epidemic will not achieve any significant results in the short-term. A long-term approach must be taken to address the issue over a significant period of time. The initial step taken by F&C was to ensure that companies understood the business costs of HIV/AIDS and to a large extent this has been very useful in creating an awareness of the financial damage companies will suffer if they choose not to address the HIV/AIDS epidemic. F&C's recommendations also provide useful long-term measures to tackle the disease such as education and creating an awareness aimed at promoting safe sex and also non-discriminatory policies targeted at ensuring those who are infected with the virus are treated fairly in the workplace. Addressing the HIV/AIDS epidemic and mitigating its impacts is not a project that would yield significant returns to companies in the short-term, however there is no doubt that a healthy, vibrant workforce in any organisation is more productive than an unhealthy one.

From the investigation of the various case studies of engagement by F&C in corporate governance and corporate social responsibility, four types of engagement can be derived as shown in Table 15: use of dialogue, shareholder proposals, collaborative engagement and F&C engagement with regulators.

1.) Dialogue and negotiations sometimes fail to change corporate behaviour and practices and the use of shareholder resolutions applied by F&C has initiated a change in corporate behaviour and practice.
2.) Individual investors' engagement on complex issues such as climate change, biodiversity and excessive executive remuneration may not incur any meaningful change in corporate behaviour; a collective or collaborative approach is necessary if any meaningful change in corporate behaviour is to be achieved.
3.) In a few instances the use of dialogue, shareholder proposals and a collective approach may fail to influence change in corporate behaviour and practices. In some of those instances, F&C has turned to regulators such as the European Commission and the Hong Kong exchange.

Table 15: A Typology of Investors' Engagement with Examples from F&C Investments

	Type of engagement	Details	Potential outcomes	When one method fails
1	Dialogue	Dialogue is the use of meetings, discussions and letters to influence corporate behaviour. In 2010, F&C held one on one discussions with major technology companies including Apple, Advanced Micro Devices, Microsoft, Motorola and Sony to encourage responsible sourcing, compliance with emerging legal standards and support for sustaining mining in the Democratic Republic of Congo (DRC).	Thus far, companies have developed policies to avoid sourcing conflict minerals from DRC, implementation still remains a challenge.	However, there are some instances when dialogue fails to influence change in corporate behaviour, F&C tends to make use of shareholder proposals.
2	Shareholder proposal	A shareholder proposal is a document recommendation that a shareholder formally submits to a publicly traded company advocating the company take a specific course of action. F&C has engaged on the environmental and social risks associated with oil sands extraction since 2007, but filing a shareholder resolution at Shell saw an intensification in its activities.	The company improved on the information it had already provided by publishing a standalone report and offering meetings with the heads of its Canadian oil sands operations.	Shareholder proposals are filed, and in some instances result in changing corporate behaviour.
3	Collaborative approach	A collective approach involves teaming up with more than one investor to address a particular issue. Leading a UN PRI Clearing House on anti-corruption, F&C brought together 20 investors to write to selected global companies to urge better practice policies and disclosure on corruption and business ethics.	The project, continuing into 2011 was coordinated with Transparency International and has already resulted in numerous positive responses.	At times the use of dialogue and shareholder proposals may fail, F&C may decide to make use of a collaborative approach.
4	F&C engages with regulators	In addition to one-on-one dialogue, F&C also joins policy and regulatory debates, in recognition of the fact that individual companies cannot afford to overreach on sustainability at the expense of competitiveness.	In 2010, F&C contributed to the UK's stewardship code, aimed at setting standards for investors' responsibility, numerous policy initiatives on building a low-carbon future and regulators around the world including the SEC, the European Commission and the Hong Kong Exchange.	There are instances when dialogue, shareholder proposals and a collective approach to engagement do not influence change in corporate behaviour. F&C then turns to regulators.

6.9 Conclusion

This chapter began by examining the corporate governance and corporate social responsibility issues addressed by F&C Investments' engagement that have been extensively discussed in the literature review in chapter two. The findings of this research reveal that there are core corporate governance and corporate social responsibility issues that F&C Investments' engagement is targeted at in order to influence corporate practices and policies. Some of the most pressing corporate governance and corporate social responsibility issues include: executive remuneration, bribery and corruption, restructuring of the Board, biodiversity, labour standards, climate change and health and safety. Executive remuneration, restructuring of the Board, labour standards, climate change and health and safety are corporate governance and corporate social responsibility issues similar to those existing in the literature upon which institutional investors have spent time and resources in order to influence practices and policies. Bribery and corruption and biodiversity appear to be emerging issues that F&C Investments' engagement intends to influence in terms of corporate behaviour and practice. Existing literature on institutional investors' engagement in corporate governance and corporate social responsibility has paid little attention to risk management, bribery and corruption, biodiversity, sustainability, environmental management system and internet access, security and privacy issues. Particular corporate governance and corporate social responsibility issues such as bribery and corruption, climate change and biodiversity cannot be resolved by a single institutional investor alone, for any meaningful result to be achieved it is necessary for institutional investors to combine resources and knowledge in order to influence behaviour, practice and policies.

Agency theory postulates that because of the existence of an agency relationship in corporations, the incentive for managers to act in their own interest rather than the shareholders interest, there is a need for a monitoring role by shareholders who can encourage goal alignment (Jensen and Meckling, 1976; Eisenhardt, 1989). Attitude to risk is just one of the areas in which agents and principals have divergent views. Consequently, without shareholders monitoring, managers may with the intention of increasing their performance based earnings and remunerations are likely to throw caution to the wind and take on excessively risky projects.

Consequently, there is the tendency of managers accruing significant losses as a result of risky investment decisions they made. Such losses are capable of leading to the collapse of firms and business organizations as a result of excessive risk taking and poor risk management practices. The collapse of firms because of poor risk management practices also affects shareholders as well as the wider community as a result of job losses and loss of production of goods and services.

Kim, Nosfinger and Morh (2010: p.162) state that**, "**In large part, the recent financial crisis was triggered by poor corporate governance practices. The firms that required bailouts took excessively risky positions that relied on the continuing boom in the U.S real estate industry. From the shareholders perspective, a well-run firm would not be in danger of bankruptcy if one sector of the economy collapses. Falling real estate prices would cause some losses but would not put a firm that survived the Great Depression out of business. The reason these failures occurred was that many companies were not well governed. Executives loaded up on risk from one sector of the economy seeking extra profit with little concern for additional risk."

The increasing importance of integrating risk management strategies in corporate governance cannot be overemphasized (Solomon, 2010), while there are well defined and articulate risk management codes in the Turnbull report, and other corporate governance codes, the realities, as evidenced by the global financial crisis in 2008, is that risk management is not properly integrated into investment decisions making and strategies. Therefore, it is of significant importance that institutional investors ensure that managers update their risk management system and risk management practices in corporate governance. It does appear that while significant attention has been made in safeguarding against corporate social responsibility risks such as health and safety, climate change and biodiversity and developing environmental management systems. The same cannot be said with regards to risks that emerge from corporate governance practices. Risk management in corporate governance, it appears, has not been given significant attention. Another emerging issue in corporate governance is the ethical aspect of corporate governance. The issue of bribery and corruption, and the need for increased transparency and disclosure in corporate governance practices is beginning to gain ground and is receiving a lot of attention. Institutional investors such as F&C investment are beginning to take an active stand to ensure that companies that they have vested interest in, are strengthening their whistle-blowing mechanisms and are also strengthening internal mechanisms targeted at addressing ethical issues.

In the existing literature as can be seen in chapter two, research on institutional investors' engagement in corporate governance and corporate social responsibility appears to make use of agency theory or stakeholder theory. Agency theory explains the economic and financial motivation for institutional investors' engagement; however it falls short in explaining the reasons for institutional investors' involvement in corporate social responsibility. F&C Investments is engaging not only in corporate governance issues but also in corporate social responsibility issues. This has implications for theory; in practice F&C Investments' engagement is not based solely on agency theory postulations, it also embraces key elements of stakeholder theory which emphasise that investors should also take into consideration social, environmental and ethical issues. Although agency theory and stakeholder theory have very different philosophical stances, it appears that both may share the long-term objective of maximising value for shareholders and stakeholders

Also, the findings of this research reveal that institutional investors are applying multiple methods in the way they practice engagement. The various methods and strategies institutional investors use to influence corporate behaviour, practices and policies have been well extensively discussed in chapter three. Agency theory posits that institutional investors willing to influence corporate behaviour, practices and policies can choose to use any of the following methods: raising their concerns with management via writing letters, attending meetings and participating in negotiations with the management Board; shareholder resolutions and shareholder voting; public campaigns and media pressure; takeover mechanisms; threat of divestment and collaborative engagement.

In the extant literature on institutional investors' engagement in corporate governance and corporate social responsibility, the norm is for institutional investors to apply one method of engagement to influence corporate behaviour, practices and policies. However, the literature does not explain what action institutional investors take when a particular method of engagement fails to produce the desired results. Dialogue has been used extensively by investors in influencing corporate behaviour and has achieved some significant success, however dialogue is not always effective. The analysis of F&C Investments' engagement practices finds that there are instances when one method of engagement fails to change corporate behaviour and practices. F&C Investments has discovered that at times it is necessary to change engagement methods. The introduction of a different method of engagement can significantly influence corporate behaviour, practices and policies. When one method proves to be ineffective, institutional investors should not resign themselves, they should change their approach.

Chapter 7: Conclusion and Research Implications

7.1 Introduction

At the core of institutional investors' engagement is the need for investors to influence corporate behaviour, practices and policies in corporate governance and corporate social responsibility. The research in the extant literature thus far has examined institutional investors' involvement in corporate governance and corporate social responsibility as separate and isolated issues. This research has shown that institutional investors are beginning to engage in corporate governance and corporate social responsibility in an inclusive manner. Institutional investors' engagement in corporate governance is important, as is institutional investors' engagement in corporate social responsibility. This research also finds that institutional investors' engagement in corporate governance and corporate social responsibility is applying multiple methods to in their engagement practise; institutional investors are using more than one method of engagement to influence corporate behaviour, particularly in situations where an initial method fails to yield desired results, another method is applied. This chapter begins by providing a summary of the chapters of this research. The next section examines the questions that were posed at the beginning of this research and provides a summary of the findings. The findings, hence contributions, to knowledge and practice are explained. The limitations of this research are explicated and the direction for future research is examined.

7.2 A Summary of the Research

Chapter 2 began with a discussion of the agency theory framework that explains the tensions between agents and principals, the underlying reason for institutional investors' engagement and the need to reduce agency costs. Agency theory explicates that institutional investors' engagement is necessary to align the needs of investors and company managers. The agency theoretical position posits that institutional investors' engagement should be focused exclusively on corporate governance issues and issues that directly impact the financial bottom line, social and environmental issues are not taken into consideration. This is evidenced in earlier papers on shareholder activism that deal exclusively with governance issues such as executive pay, independence of Board members, structure of Board, improving poor performance and mergers and acquisitions. Institutional investors were not concerned about social and environmental issues.

Agency theory fails to provide a coherent explanation for institutional investors' involvement in social and environmental issues. It does not explain why investors are integrating corporate governance and corporate social responsibility issues in engagement. Stakeholder theory offers a theoretical explanation of why institutional investors should be concerned about social and environmental issues. Resurgence of institutional investors' engagement in the UK resulted largely from corporate governance failures such as the collapse of Northern Rock and Bradford & Bingley and the bailout of banks such as Barclays, Royal Bank of Scotland and Lloyds TSB. Stakeholder theory argues that, institutional investors' engagement influences corporate behaviour, practices and policies in corporate governance and corporate social responsibility issues.

Chapter 3 discusses the various approaches to institutional investors' engagement, explaining the macro and micro approaches. The most suitable strategy used by various firms in achieving significant results in engagement practices has been the use of dialogue; virtually all cases of engagement practices studied revealed that communication and trust had been vital in the achievement of positive outcomes in engagement practices, although there are indications that collaborative engagement has the potential to achieve more (McLaren, 2004; Collier, 2004; Sparkes and Cowton, 2004; Solomon, 2010).

Chapter 4 focuses on the research philosophy and methodological approach used in the research and begins by explaining the epistemological stance and lenses adopted to examine the use of multiple methods in institutional investors' engagement. The choice of a positivist philosophy is discussed and the researcher's ontological position explained. The selection of case study methodology, research design, research sample and analysis of the research data is explained. At a strategic level the research methodology and process could be explained in broad terms to take into consideration the general philosophical approach adopted by the researcher.

Chapter 5 takes a detailed look at F&C Investments. It begins with a brief discussion of the history of F&C, the organisation structure and the size of its assets and investment holding. The corporate governance principles and guidelines used in F&C engagement practices are elucidated. An explanation is given of the decision by F&C to effectively manage the risks and opportunities associated with significant social, ethical and environmental issues as an important component of good governance practice. The reason for the selection of F&C Investments for the research is discussed in detail.

Chapter 6 discusses the findings of the research into institutional investors' engagement by F&C Investments. The findings reveal the evolving nature of institutional investors' engagement and that instances exist where a particular method of engagement has failed to produce desired results. An important contribution from the findings of this research is that when a particular method fails, F&C makes use of shareholder proposals to influence corporate behaviour and practices, having proved to be a very important and useful tool in getting corporations to change position on particular issues of concern to F&C.

7.3 Use of Multiple Methods in Institutional Investors' Engagement

The central aim of this thesis is to examine the use of multiple methods in institutional investors' engagement in the UK. In pursuit of that aim, the thesis seeks to examine institutional investors' engagement through the agency theory framework. In a bid to fill the gap between existing literature and practice, this research, at its inception, posed two research questions: (1) What are the types of corporate governance and corporate social responsibility issues that institutional investors are concerned with? (2) How do institutional investors' use multiple methods in engagement, especially in relation to those strategies that do not seem to achieve the desired outcomes?

Table 16 presents a list of the most important corporate governance and corporate social responsibility issues addressed by F&C engagement. A more comprehensive list of corporate governance and corporate social responsibility issues is discussed extensively in Chapter 6. The following corporate governance issues appeared to reoccur most frequently over the five-year period: executive remuneration, restructuring of the Board and Board performance, bribery and corruption, voting rights and pre-emptive rights. In the case of corporate social responsibility, the following issues emerged consistently from the data: labour standard practices, biodiversity, health and safety, human rights and HIV/AIDS. F&C engagement in corporate governance and corporate social responsibility reveals that a broader range of issues is being addressed. For instance, in corporate governance F&C engagement focused on issues such as bribery and corruption, provision of risk oversight and transparency. Similarly, F&C engagement targeted corporate social responsibility issues such as internet privacy, security and access, biodiversity, environment impact assessment and integrating corporate social responsibility and corporate governance themes into investment strategies.

Table 16: A Summary of F&C Engagement in Corporate Governance and Corporate Social Responsibility Issues Ranked in Order of Importance to Institutional Investors

	Corporate Governance	Corporate Social Responsibility
1	Executive remuneration	Labourstandard practices
2	Restructuring of the Board and Board performance	Biodiversity
3	Bribery and Corruption	Health and Safety
4	Voting rights issues	Human rights
5	Pre-emptive rights	HIV/AIDS
6	Improvement in governance practices	Reduction in carbon emissions
7	Failure to provide risk oversight	Climate change
8	Transparency	CSR reporting
9	Poison pills	Sustainability
10	Poor governance practices	Political influence and lobbying
11	Risk management oversight	Extractive Industry Transparency Initiative
12	Illegal transfer pricing	Internet access, security and privacy
13	Improvement of governance practices	Environmental impact assessment
14	Approval of anti-takeover	Concerns regarding recycling
15	Concerns regarding issuance of new capital	Integration of CSR and CG themes into investment strategies

One important finding of this research is the integrating of corporate governance and corporate social responsibility in F&C Investments' engagement practices. Integration in the sense that institutional investors do not engage in corporate governance practices to the detriment of corporate social responsibility practices, as was previously the case as revealed through an examination of the literature. Agency theory makes the erroneous assumption that institutional investors' interests are purely monetary, this has been reinforced over subsequent decades in the mathematical modelling of formulas of financial economics (Jensen and Meckling, 1976; Seth and Thomas, 1994). However, modern institutional investors bear little resemblance to the individual investor of the last century. The modern investor, including pension funds, labour union pension funds and social-interest mutual funds, pursues environmental and social, as well as financial, goals. There is an emergence of the modern institutional investor who understands the necessity of attending to social and environmental issues and the threat to the continuity of a business that may result from neglecting such issues. The researcher deems it important to understand that the nature of investor engagement has significantly changed in focus from purely economic to embracing social and environmental issues; it is necessary for institutional investors to embrace this new reality of emerging trends otherwise serious consequences may be incurred.

The integration of corporate governance and corporate social responsibility indicates that the ways in which institutional investors' engagement is now practiced may have changed. In engaging with companies, institutional investors may need to embrace this new reality in order to adapt their engagement strategies. The literature review on institutional investors' engagement practices has examined engagement in corporate governance and corporate social responsibility as independent and isolated elements. Corporate governance engagement was seen as a distinctive and separate element from corporate social responsibility engagement, they were not considered to be linked or connected in any way. Institutional investors' engagement has treated corporate governance and corporate social responsibility practices as isolated elements. This will have presented policy implications and informed their choice of strategy in engagement with companies in which they have a vested interest.

F&C Investments' engagement in corporate governance and corporate social responsibility suggests that corporate social responsibility has become mainstream; having surpassed the initial boundaries of religious and ethical investors to become a major aspect of corporate governance. Ignorance of this development would result in investors' thinking, engagement and strategies in tackling corporate governance and corporate social responsibility practices to be flawed, in which case it is difficult to arrive at sensible solutions to address poor corporate governance and corporate social responsibility practices. Flawed thinking would inevitably lead to flawed policies, and it is impossible to have any meaningful success in engagement through the implementation of flawed policies.

The second question this research set out to address was how do institutional investors' use multiple methods in engagement, especially in relation to those strategies that do not seem to achieve the desired outcomes?

It has not been possible for previous research on institutional investors' engagement to shed light on the use of multiple methods in institutional investors' engagement, particularly as a significant amount of engagement is conducted discreetly, and the information and data of engagement activities are not usually publicly disclosed (Solomon, 2010; Hebb et al., 2012). Gifford (2010) maintains that institutional investors' engagement is a field of business and management research which has trailed significantly behind practice. The internal engagement processes as well as the systems that support engagement of leading UK fund managers have been scarcely documented, with any actual documentation lacking in detail and specifics.

Research on institutional investors' engagement thus far has focused on exploring issues such as existing practices of institutional investors' engagement and the effectiveness of engagement activities (Dresner, 2002); motivations and attitudes towards institutional investors' engagement practices (Maier, 2002); strategy, drivers and tools of institutional investors' engagement (Southwood, 2003; Sparkes and Cowton, 2004,); emergence of standards in institutional investors' engagement (McLaren 2004;Vanderckckhove et al., 2008) and; factors that are likely to ensure successful engagement outcomes (Gifford 2010).

However, very few researchers, if any, have examined the ways in which institutional investors' engagement strategies are evolving. Very little research on institutional investors' engagement refers to the possibility that dialogue can prove inadequate and may fail to produce the intended and expected results. However, current research has not examined what course of action institutional investors take when a particular method of engagement fails to yield the desired result. The norm in existing literature on institutional investors' engagement is to focus on the use of one method of engagement and its influences on corporate behaviour, practices and policies. In an attempt to influence corporate behaviour and practices, institutional investors may use the following methods and strategies:

i) Raising their concerns with management by communicating in writing, meeting with the management Board and negotiation.

ii) Shareholder resolutions and shareholder voting.

The findings of this research into F&C's engagement in corporate governance and corporate social responsibility reveal that F&C has progressed beyond the use of one method to influence corporate behaviour and practices. Research on the strategies and methods of institutional investors' engagement in corporate governance and corporate social responsibility tends to focus on the static nature of engagement. Where one method is used and the intended outcome is not achieved, engagement by institutional investors seems to falter. Extant research provides no further discussion around the courses of action institutional investors take when a particular method fails to yield results. This is not the case with F&C however. F&C recognises that in some instances it is necessary to use more than one approach to engagement in order to influence corporate behaviour. Some of the case studies examined in the previous chapters revealed that F&C initially endeavoured to influence corporate behaviour and practices through constructive dialogue with investee companies. However, when the use of dialogue fails to influence change in corporate behaviour, F&C apply a different method and strategy. F&C also understands that there are particular corporate governance and corporate social responsibility issues where individual investors' engagement will not achieve any meaningful results. In such circumstances, the use of a collective approach is deemed more suitable. Gillian and Stark (1998) suggest that activism and engagement, in some situations, is more effective when institutional investors participate collectively, than when individual investors raise issues that need to be addressed.

7.4 Contribution to Knowledge and Practice

In terms of theoretical perspective, agency theory posits that institutional investors' involvement in corporate governance is purely a result of economic considerations targeted at improving a corporation's performance, however the findings of this research oppose this view. Institutional investors' engagement has reached beyond the scope of economic considerations to include corporate social responsibility. Institutional investors do not have to favour economics over acting responsibly as acting responsibly can reap economic benefits as well as mitigating perceived social and environmental risks. This finding is consistent with that of Hendry et al. (2007) and Hebb et al. (2012) whose work on institutional investors' engagement concludes that institutional investors' engagement now incorporates broader corporate governance and corporate social responsibility issues. Institutional investors are integrating elements of agency and stakeholder theory in corporate governance and corporate social responsibility engagement. Stakeholder theory provides valuable insight into the motivations and importance of institutional investors' engagement in corporate social responsibility. In short, although agency and stakeholder theory seem to be theoretical opposites, they share the same goal of enhancing long-term value for shareholders and stakeholders. This clearly presents the business case for institutional investors' engagement in corporate governance and corporate social responsibility.

From a practitioner's perspective, it is important to be aware of the ways in which engagement in corporate governance and corporate social responsibility is advancing and making significant progression. Of particular importance is the fact that changing their approach and strategy in engagement, institutional investors can influence corporate behaviour, practices and policies. Institutional investors' engagement is moving beyond the static and one method/strategy approaches to engagement extensively discussed and researched in the extant literature. Engagement in corporate governance and corporate social responsibility is becoming dynamic, institutional investors should not falter or feel humiliated when a particular strategy or method to influence corporate behaviour and practices fails but recover, re-strategise and select an alternative method. For example, employ shareholder voting where constructive dialogue failed to yield the desired results or when dialogue or voting fails to achieve the intended outcome, investors may adopt a collective approach to engagement instead of an individual approach, drawing in other investors concerned with similar issues. Changing engagement methods and strategies and pooling the resources of several investors may well succeed in pressuring investee companies to change corporate behaviour and practice. In summary, there is no ‘one size fits all’ approach or strategy that institutional investors can apply to influence corporate behaviour and practices. Institutional investors can and should make use of a variety of methods and strategies in order to influence corporate behaviour and practice.

Institutional investors’ engagement has seen significant progress in the UK. However it is important to note that UK institutional investors’ success has not been entirely of their own making, regulatory reforms in the UK such as the Cadbury Report, Turnbull Report, Combined Codes, Turner Review, and Walker Review have created an enabling environment for investors to become more involved in corporate governance and corporate social responsibility practices. This may not be the case for institutional investors in other parts of the world. Rethinking institutional investors’ approach to engagement in corporate governance and corporate social responsibility should become imperative for institutional investors, policy makers, practitioners, regulators and academic researchers.

7.5 Limitations of the Research

The greatest limitation of this research is the lack of academic and practitioner research and analysis of F&C Investments. Investigation into the use of multiple methods in institutional investors' engagement in corporate governance and corporate social responsibility from the perspective of F&C Investments is also lacking. Although F&C Investments disclosed a significant amount of information on its engagement activities, the materials used were secondary and the research would have benefited immensely from interviews and a larger number of case studies with fund managers who were actually involved in specific investors' engagement activities. However as access to company representatives was severely restricted, the researcher elected to limit the research to information and data available from F&C Investments and other existing information from credible newspapers and magazines such as the *Financial Times*. Fortunately, F&C Investments disclosed a wealth of information that allowed for a longitudinal analysis enabling the researcher to investigate the advancement of its engagement in corporate governance and corporate social responsibility practices.

An additional limitation of the research is the number of cases used in examining the use of multiple methods in institutional investors' engagement. Consequently, it is possible that by using only a small amount of cases some important insights could be omitted. It is also acknowledged that the selected cases are not wholly representative therefore generalisations cannot be drawn from the findings of the research. However, as referred to by discussion in the research methodology chapter, the research did not seek to generalise the use of multiple methods in institutional investors' engagement in corporate governance and corporate social responsibility on the basis of analysis of a small number of cases.

However, it is important to note that, from the onset, the researcher intended to reveal that institutional investors' engagement strategies, methods and practices are evolving. Institutional investors' engagement has moved beyond the static nature of engagement that has been extensively discussed in the extant literature. Institutional investors, as the findings of the research reveal, need more than one method of engagement to change corporate governance and corporate social responsibility practices when a particular method of engagement fails to achieve expected outcomes. Essentially, the rationale of the research has been to learn from F&C Investments' engagement practices in corporate governance and corporate social responsibility enabling greater success for other investors and practitioners who engage in influencing corporate governance and corporate social responsibility practices.The researcher posits that this research provides a platform from which other researchers investigating the use of multiple methods in institutional investors' engagement on corporate governance and corporate social responsibility can continue.

7.6 Direction for Future Research

The researcher has made a case for the use of multiple methods in institutional investors' engagement based on the findings of the research into F&C Investments' engagement practices. The inadequacy of the sample size and the fact that F&C Investments is one organisation illuminates the need to increase the sample size and the number of fund managers engaging in corporate governance and corporate social responsibility in order to ascertain whether the findings of this research hold true for other organisations. It is possible that the use of multiple methods in institutional investors' engagement in corporate governance and corporate social responsibility could be much broader and widespread than this research is capable of revealing, or the opposite may be true. The researcher suggests that an expansion of sample size and number of organisations examined in another research will be insightful in examining institutional investors' engagement in corporate governance and corporate social responsibility and whether the use of multiple methods in engagement is similar or whether different fund manager engagement in corporate governance and corporate social responsibility has significantly changed in practise in comparison to what was previously being done. This research has relied on a case study approach and the use of documents provided by F&C Investments to conduct a longitudinal analysis of F&C engagement in corporate governance and corporate social responsibility. The use of various research methods such as interviews and questionnaires would provide valuable and insightful information regarding institutional investors' engagement practices. In addition, comparative research on the use of multiple methods in institutional investors' engagement in corporate governance and corporate social responsibility between, for instance, the UK and America would also be very useful, or between the UK and Japan.

A significant amount of institutional investors' engagement research in the UK has focused extensively on the use of dialogue to communicate investors' concerns and as a means of influencing corporate behaviour and practices. Unfortunately, research on institutional investors' engagement has yet to examine in detail what courses of action institutional investors take when dialogue fails to produce results or influence behaviour and practice. It would be very useful and insightful to learn what measures other UK institutional investors take when dialogue fails: what strategies do they use to engage with companies, are they similar to those used by F&C or do they have an alternative approach? While the researcher believes it is important to use dialogue to influence corporate governance and corporate social responsibility practices in institutional investors' engagement, the researcher is of the opinion that it is unrealistic to expect dialogue to always yield meaningful results. As the research on F&C Investments has revealed, there are instances where dialogue proves inadequate, where other measures must be taken to influence managers of corporations to improve corporate behaviour and practice. It would be interesting to learn whether the use of multiple methods in institutional investors' engagement is the norm or if it is peculiar to F&C Investments and what courses of action other institutional investors take when dialogue fails to produce desired results.

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Appendix 1: Writing a DBA Thesis: My Personal Experience

I guess the most interesting period of doing a DBA was the first few weeks after I had been given my admission letter. I would introduce myself loudly and clearly to anyone who would listen, and as audaciously as I could manage, I would inform them that I was doing a DBA. Looking back, I do think that I must have seriously underestimated in my mind what was involved in writing such a difficult piece of work. The journey, if I can call it one, has been long and winding with so many twists and turns that it seemed it would never end. It all appeared like a massive maze to me when I began. It felt like there was so much to be done, the harder I worked, it seemed like my research work continued to expand and I didn't not feel I would ever get it done. Doing a DBA can be mentally and emotionally exhausting. The number of hours I had to put into my research was enormous and having to look at a piece of work over and over again for a long period of time can take its toll on any individual.

When I began my doctoral degree, I must have been confounded by the number of decisions I had to make: where do I begin my research, what literature review is relevant, what do I leave out, what should the focus of the research be, what should be emphasized, and what should be left out? These questions continued to plague me until the very end of my writing the thesis. More frustrating was the fact that most times I didn't seem to be getting the forthright answers I wanted. When I would put forward these very same questions, my supervisors would ask that I go back to my research question. They told me that the research question has a way of informing what is important, and what to focus on. I eventually discovered that they were absolutely right about that.

I cannot stress the importance of having a good supervision team. I would not have been able to finish this thesis without the help and support of the supervision team assigned to me. I found that my research work progressed very quickly when I had regular meetings and quick feedback from my supervision team. When I initially started my research work I was quite reluctant to ask for help and support when I got stuck in a difficult position. I struggled with asking for help with my thesis, and I think my work suffered some setbacks during that period when I did not solicit support from my supervision team. However, when I learnt to ask for help from my supervision team when I got into difficult spots, I found them to be very supportive.

I had always been inclined to write my thesis in a loosely structured manner; I am not a person who would have a structure in place before I begin writing. I have always preferred writing first, and then restructuring the work later. In my opinion, this allows me the opportunity to be creative in the way I write my research. It allows me a bit of flexibility in the way my research thesis develops. With hindsight, however, I think that one of the things I would do differently would be to adopt a more structured approach in writing my thesis. I have learned that using a loosely structured approach has some weaknesses. Through some constructive feedback from my supervision team I have come to see that the downside of using a loosely structured approach is that it can lead to repetition in the research work. It has taken a lot of work to get the repetitive phrases in my work out of it. I have come to see that one of the advantages of having a structure in place before writing is that it allows the researcher focus on particular research issues and themes. Having a structure in place also gave me purpose; it had the added advantage of giving me a sense of accomplishment when I could tick off areas which had been tackled.

In my own experience, one thing that has continued to puzzle me about supervision is how supervisors can change positions on a particular piece of writing. This happened on a few occasions. I had submitted a piece of work and it had been looked at by my supervisor and deemed acceptable. Then a few weeks later the same piece of work was submitted again and I found my supervisor had changed his position on the work. It had been fine a few weeks before, but this week, the same piece of work was found wanting. I still haven't found an answer to the question of how a piece of work was fine last week, and a few weeks later, it is no longer fine. What happened, what changed? These are questions I think I was too scared to ask, but nevertheless, it is something I still find puzzling. Initially I found it bit perplexing and very frustrating, but I had to learn to accept it all in good faith. I have also learned to trust the academic competence of the supervisor team as well as their judgment. I do believe that whatever they did, they did with the sole intention of improving my research work.

So many times I came close to throwing in the towel, putting down my tools, and literally giving up. I could not see how I would be able to finish the journey. So many minor obstacles tended to rear their ugly heads and almost at the same time. My finances were running thin and I had to spend so much time thinking about paying the rent and looking for where the next pound would come from. To make matters worse were the psychological fears that I had to deal with, the possibility that with all the issues I had to grapple with, I would be unable to finish up. Seeing all the resources that had been invested in the programme, I wondered how I would look my dad in the face, or face by colleagues at work. How would I explain it to people close to me? What would I tell them was the reason I could not complete my studies?

Sitting down in front of my computer today, I could not have imagined how the DBA journey would have unfolded over the past four years. There have been a lot of twists and turns and it has been a bitter sweet experience. There has been some excitement- those Eureka moments, times of sudden clarity and insight when it seemed a light bulb appeared over my head. There have also been many disappointments; times when it seemed like I wasn't making any headway, and other times when my work had to be refocused which meant hours and pages of research had to be done away with. There were also the challenges of delays and extensions, as well as those of different supervisors with their corresponding differing perceptions of the work. I doubt I will ever be able to fully understand how I have been able to wade through all the intricacies until I have come to this moment where it's only a month away from the submission of my thesis.

Now that I have finished writing up, it feels a bit surreal, a bit like I am still dreaming. It seems too good to be true! In a few more days, I will not have to wake up thinking about writing my thesis anymore. I would have handed in the work, and I would have moved on to other things. I am a bit euphoric. Although on the one hand there is the joy of moving on to something else, on the other hand there is the sadness, I guess, of letting go and putting away the work that I have been neck-deep in for years. There are also all the other anxieties that are likely to come with the next stage, which is preparing for the viva. I think I feel a tinge of worry about the question and answer session followed by the thirty minutes wait after the viva, where the examiners will evaluate and assess the work, and come out with the decision to grant me a doctorate or not. These are very valid concerns, especially due to the time, money and energy I have invested in this programme. I am optimistic, however, that in the same way the previous challenges were faced and overcome, I am hopeful that I shall overcome successive ones as well.

Appendix 2: Corporate Governance Issues Institutional Investors Address

Issues related to repealing anti-takeover devices	Board and committee independence issues	Voting issues	Other issues
Repeal classified Boards	Director ownership	Cumulative voting	Other
Eliminate poison pill	Other related to director	Confidential voting	Annual meeting
Eliminate golden parachutes	Increase Board independence	Other voting related matters	Prohibit dual CEO/Chair
Eliminate supermajority requirements	Limit directors' terms		Audit related
Opt out of state antitakeover law	Nomination of directors		
Prohibit greenmail payments	Directors' compensation		
Targeted share placement	Directors' attendance at general meetings		
Reincorporate to another state			
Fair price provision			
Executive Compensation	**Auditor independence**	**Shareholder rights**	**Other issues**
Restrict executive compensation	Limit consulting by auditors	Minority shareholders' rights	Sell the company
Disclose executive compensation	No consulting by auditors	Pre-emptive rights	Restrict options
Review executive compensation	Limit non-audit fees		Equal access to proxy
Require option shares to be held			Establish shareholder committees
Abolish stock option			
Implement executive compensation plan			

Source: Compiled from Gillan and Stark (2000); Karpoff (2001); Romano (2001); Thomas and Cotter (2006)

Appendix 3: Corporate Social Responsibility Issues Addressed by Institutional Investors

Diversity/non discrimination	**Executive (performance-related) pay**	**International conduct**	**Environmental**
EEO reports	Social performance	World debt crisis (debt cancellation/policy)	Adopt Valdex/Ceres Principles
Board diversity	EEO record	Foreign operations in Northern Ireland, South Africa, Burma, China, Nigeria and Maquilidoras	Radiation releases
Predatory lending Reports on glass ceiling	Healthcare quality Overseas labour standards	NAFTA Labour standards for overseas suppliers	Greenhouse gases (CO2 emissions) ‘Pure profit’ environment risks
Domestic partner benefits	Reduction in teen smoking	Child/slave labour	Alaska National Wildlife Refuge drilling
Sexual orientation non discrimination		ILO standard	
		Implement MacBride principles	
Military	**Energy**	**Corporate policy**	**Social issues – miscellaneous**
Foreign military sales and contracts	Energy conservation	*Implement ethical criteria for Board outsiders*	Matching shareholder gifts
Star wars/space weapons	Nuclear plants (information and closure)	*Money laundering*	Charitable contributions
Land mine production	Sustainable energy policy	*Corporate tax benefits and subsidies*	Social criteria for financial decisions
Economic conversion of military assets	Alternative power sources	***Animal rights*** Animal right research	
Criteria for military contracts			
Alcohol, tobacco, firearms	**Reproductive issues**	**Media**	**Political donations**
Decrease youth smoking, tobacco sales	Contribution to abortion providers	Reduce television violence/raise broadcast standards	End or disclose political donations
Smoke-free restaurants	Contraception warnings	Eliminate negative image marketing ads	Affirm non-partnership
Gun sales		***Healthcare*** Healthcare policy and reform Drug pricing/restraint Marketing of infant formula	Enact shareholder vote on political donations

Source: Compiled from Grave et al. (2001); Monks et al. (2004) ;Tkac (2006)